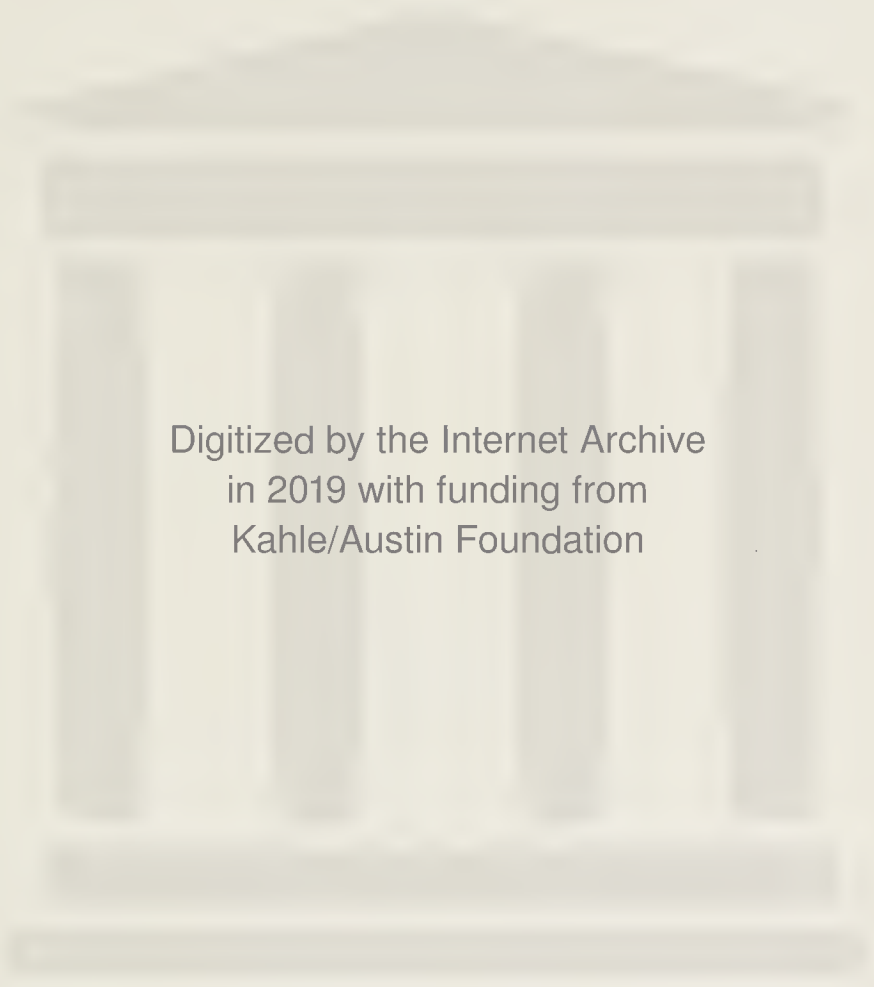




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Foreign Relations of the United States 1948

Volume VIII

The Far East:
China



United States
Government Printing Office
Washington : 1973

JA 233 .f.3 V 8 (1948)

DEPARTMENT OF STATE PUBLICATION 8683

HISTORICAL OFFICE

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PREFACE

This volume was prepared under the general supervision of E. Ralph Perkins, formerly Chief of the Foreign Relations Division, which is currently headed by Fredrick Aandahl.

The compilers of this volume were Francis C. Prescott, Herbert A. Fine, and Velma Hastings Cassidy. Preliminary planning and review of the volume was provided by Mr. Perkins, John G. Reid, and Mr. Prescott. Final review was the responsibility of S. Everett Gleason, formerly Chief of the Foreign Relations Division, and of Rogers P. Churchill and Mr. Reid.

The editors acknowledge with appreciation the assistance provided them by the historians of the Department of Defense, including those of the Joint Chiefs of Staff.

The Publishing and Reproduction Services Division (Jerome H. Perlmutter, Chief) was responsible for the technical editing of this volume.

The index was prepared by Mr. Prescott.

WILLIAM M. FRANKLIN
Director, Historical Office
Bureau of Public Affairs

PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 2 FAM 1350 of June 15, 1961, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the regulation, as further amended, is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. These volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Department's

files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States* is edited by the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record is guided by the principles of historical objectivity. There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons :

- a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
- b. To condense the record and avoid repetition of needless details.
- c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
- d. To avoid giving needless offense to other nationalities or individuals.
- e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternatives presented to the Department before the decision was made.

1353 *Clearance*

To obtain appropriate clearances of material to be published in *Foreign Relations of the United States*, the Historical Office :

- a. Refers to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refers to the appropriate foreign governments requests for permission to print as part of the diplomatic correspondence of the United States those previously unpublished documents which were originated by the foreign governments.

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UNITED STATES MILITARY ASSISTANCE TO CHINA ¹

I. EFFORTS TO EXPEDITE SHIPMENTS OF SURPLUS MILITARY SUPPLIES AND AMMUNITION TO CHINA; CHINESE REQUESTS FOR ARMAMENTS CREDIT

S93.24/12-2347

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] January 2, 1948.

Reference: Memoranda dated November 4, 1947, and December 23, 1947, from the Chinese Embassy,² enclosing lists of military supplies said to be urgently needed by the Chinese armed forces; letter dated November 8, 1947, from the Chinese Minister,³ in regard to the Chinese request for M .50 cartridges.

Dr. Tan ⁴ called at 11:30 today by appointment. He said that he had just received from his Government word to the effect that the field representative ⁵ of FLC ⁶ at Shanghai had been authorized to sell to China surplus ammunition and explosives in the Marianas at one percent of procurement cost. He requested that I supply him with such details as were in my possession for the information of his Ambassador.

In reply I gave Dr. Tan the substance of the information contained in the first paragraph of the Department's telegram no. 1585, of December 30, to Nanking,⁷ and added that the Chinese Government might wish to act quickly to obtain this ammunition, which it was hoped would meet in part their urgent needs as outlined in the Chinese Embassy's memoranda of November 4 and December 23. I stated that, in my opinion, it would be inadvisable to consider this ammunition as substituting for any ammunition for which the Chinese Government had placed an order with Olin Industries, firstly, because of the nominal price to be charged, and secondly, because this ammunition may have suffered some deterioration in storage in the Marianas.

With further reference to the Chinese Embassy's two memoranda

¹ For previous correspondence, see *Foreign Relations*, 1947, vol. VII, pp. 785 ff.

² *Ibid.*, pp. 913 and 934, respectively.

³ *Ibid.*, p. 916.

⁴ Shao-Hwa Tan, Chinese Minister.

⁵ S. N. Ferris Luboshez.

⁶ Foreign Liquidation Commissioner.

⁷ *Foreign Relations*, 1947, vol. VII, p. 936.

already mentioned, I informed Dr. Tan that we had sent copies thereof to the Department of the Army, inquiring to what extent these requirements could be met from surplus. I said that we had also asked the Department of the Army to what extent other types of war material similar to that supplied to the 39 Division Program could be declared surplus for transfer to China. I promised to keep him informed of developments. (Reference: Department's letter of December 31, 1947 to the Department of the Army.⁸)

With respect to negotiations now in progress for the purchase of surpluses in the Zone of the Interior applicable to the 81 $\frac{1}{3}$ Group Program, I said that it was my understanding that the Department of the Army was becoming somewhat impatient over what it felt to be an unreasonable insistence on the part of the Chinese negotiators that a careful check be made of all material declared surplus with a view to obtaining only the most desirable items and discarding everything else. I said that it was my impression that the Department of the Army objected to this stand from several viewpoints:

(1) It would be a very expensive and time-consuming program if each lot were to be opened and inspected, as such an undertaking would require up to three or four months and the Army did not have the personnel to make such inspection.

(2) The price at which this material was offered was based on an overall consideration. Many of the items are in short supply in this country and are sold on the local market at prices up to 75 percent of procurement cost. It would, therefore, be manifestly impracticable to agree to any such arrangements as recommended by the Chinese.

(3) The United States Air Force is now expanding and material already declared surplus is now needed in connection with this expansion. It has been suggested that if no progress is made in the near future, some of the material which has been declared surplus for the 81 $\frac{1}{3}$ Program, especially C-46 spare parts, will be recalled. Part of the Air Force expansion involves the utilization of C-46 aircraft at stations overseas, spare parts for which are in short supply.

I said that I did not wish to give the impression of exerting pressure on the Chinese but I did wish to point out that it seemed to me highly desirable that the Chinese delay no longer in acquiring the material allocated, especially the aircraft engine overhaul plant and the spare parts at Wright Field.

Dr. Tan said that his Embassy was doing its best to persuade General Mow⁹ to expedite the completion of the negotiations. He confirmed my understanding that General Mow had finally been

⁸ *Foreign Relations*, 1947, vol. VII, p. 938.

⁹ Lt. Gen. P. T. Mow, Deputy Commanding General, Chinese Air Force, temporarily in the United States regarding purchase of supplies and equipment.

authorized to pay cash for the Zone of the Interior portion of the Program.

A[RTHUR] R. R[INGWALT]

893.24/1-748

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] January 7, 1948.

SALE OF COMBAT AIRCRAFT APPLICABLE TO THE 81 $\frac{1}{3}$ GROUP PROGRAM

I have been checking with the various interested Government agencies in regard to the above transaction in order to ascertain whether this Program were proceeding smoothly.

On your instruction I informed Dr. Tan on January 2 that we were now prepared to negotiate for the sale of these aircraft.

Colonel Kingman, Field Commissioner for Military Programs—OFLC,¹⁰ assures me that he now has the necessary authority to negotiate the sale of these aircraft and is merely awaiting declaration to OFLC of these aircraft as surplus.

Colonel Sterner of the Department of the Army informs me that it is clearly the responsibility of the Department of the Air Force to make the necessary surplus declarations.

Colonel Yates of the Department of the Air Force gives me the following rather gloomy picture: All available combat aircraft which could be declared surplus for the Program are in storage. Until or unless there is some definite indication from the Chinese that they want these aircraft, the Department of the Air Force does not contemplate taking any action. It is noted in this connection that the Chinese have not yet signed the master agreement covering the sale of Zone of the Interior surplus earmarked for this Program. Regulation requires that aircraft have to be declared surplus by serial number. For this reason, each aircraft has to be handled as an individual reconditioning project. Reconditioning of the 130 aircraft called for will take considerable time, perhaps six to eight months. Experience has shown that up to 50 per cent of aircraft placed in storage under similar circumstances have proved to be insusceptible of reconditioning. (I infer from talking to Colonel Yates that the China Program has a low priority and if China really wants to buy these planes, it may take a little high level table-pounding to expedite action.)

¹⁰ Office of the Foreign Liquidation Commissioner.

The Department of the Air Force is writing a letter to Colonel Kingman telling him what plans will be available and requesting that he ascertained the Chinese wishes in the matter.¹³

A[RTHUR] R. R[INGWALT]

893.24/1-1048

Memorandum of Telephone Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] January 20, 1948.

Mr. Graves¹⁴ of the British Embassy telephoned today to ask whether the Department had any comment to make on the note of January 10, regarding the proposed British sales of arms to the Chinese Government, which the British Ambassador¹⁵ left with Mr. Lovett.¹⁶

I reread the note and indicated that it was couched in terms which seemed to require no reply. I referred to the fact that the Department had announced in May last that it was issuing licenses for the export of ammunition to China and that on one or two occasions such licenses had been issued or promised, and that in the circumstances there seemed to be no useful comment that could be made.

I took this occasion to thank Mr. Graves for being so good as to keep us advised of the British Government's intentions. Mr. Graves seemed satisfied with this.

893.24/1-2348

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, 23 January 1948.

DEAR MR. SECRETARY: ¹⁷ It is noted your 31 December 1947 letter ¹⁸ attaching a memorandum from the Chinese Embassy includes three

¹³ Marginal notation by Mr. Butterworth: "Whatever the priority the first step seems to be for the Chinese to inform FLC that they want the planes promptly".

¹⁴ H. A. Graves, Counselor of the British Embassy.

¹⁵ Lord Inverchapel.

¹⁶ Robert A. Lovett, Under Secretary of State. In the memorandum of January 10, 1948, not printed, from the British Embassy, the statement was made that, because the United States had decided in June 1947 to resume the issue of export licenses for arms to China, and the Canadian Government had followed suit, the British Secretary of State for Foreign Affairs Ernest Bevin now considered it proper to modify the British policy of a complete embargo and to meet a specific request by China to supply some guns as armament for aircraft being purchased from Canada. Any further Chinese requests for war material, however, would be decided on merit. (893.24/1-1048)

¹⁷ George C. Marshall was Secretary of State at this time in succession to James F. Byrnes who had served from July 3, 1945, until January 21, 1947.

¹⁸ *Foreign Relations*, 1947, vol. VII, p. 938.

detailed lists of supplies and equipment urgently needed by the Chinese Government. These requirements have been considered in the light of your instructions that all statements with respect to availability are predicated on the material being surplus to the needs of the Department of the Army. Since the Chinese memorandum extracts items from the detailed lists of equipment, this matter can be most expeditiously disposed of by confining my reply to the requirements of the memorandum and not indicating the supply position by individual item. However, the supply position indicated on this basis will apply equally well to the detailed lists.

Currently the Departments of the Army and Air Force are declaring surplus for China approximately 6,500 tons of excess ammunition located in the Marianas. These declarations include some of the items enumerated in the attached list but not in the quantities desired. An additional quantity of 13,000 tons of bombs of all types are available in the Pacific. The propriety of furnishing the Chinese Government bombs larger than 100 pound is questionable. The tonnage of 100 pound bombs is approximately 600 tons. If it is your desire to supply the Chinese Air Force with bombs larger than 100 pound, this indication would be appreciated, otherwise declarations will be limited to only the 100 pound bombs. When the declarations are completed, in line with your directives, and the Office of the Foreign Liquidation Commissioner has made the transfer to China, no other Pacific Army stocks will be available for transfer to China. All surplus ammunition existing in the Zone of Interior has been committed to other programs.

The enumerated vehicles, tires, and tool replacement items are not available as surplus either in the Pacific or the Zone of Interior. All excess items of this type in the Pacific were disposed of to the Chinese Government under the 30 August 1946 Bulk Sale to China.¹⁹ As you will recall, this contract covered all items in China and seventeen Pacific Islands surplus at that time or subsequently declared.

The aircraft items of engine assemblies, tires, and tubes are being fulfilled to the extent available from surpluses in the Pacific and the Zone of Interior for application against the requirements of the 8½ Group Program. Those items declared in the Pacific are covered by the open-end surplus sales contract dated 6 November 1947. The total valuation of this contract is unknown as declarations are uncompleted to date. Approximately \$26,000,000 worth of Air Force supplies have already been declared to the Foreign Liquidation Commissioner, Washington, D. C. In addition, the Department of the Air Force

¹⁹ Signed at Shanghai; Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40.

has 135 aircraft available for transfer. Application of these aircraft against total $8\frac{1}{3}$ Group requirement of 1,071 would complete this phase of the program as 936 were transferred prior to August 1946. It is to be noted 37 of the aircraft are Medium Bombers. It appears the transfer of this type equipment would only further complicate the Chinese supply problem.

The list of communications equipment and accessories is greatly in excess of known Army surpluses. Some of the requirements such as wire, radio tubes, etc., can be met, but in any event, the amount which could be supplied is small since the same type of equipment is being used in support of the Greek and Turkish Aid Programs.²⁰

In summing up the supply situation with respect to China, it can be stated the Department of the Army is now making maximum surplus declarations for approved programs. The introduction of a greatly diversified list of military equipment for study at this time can only delay the present transfer of surpluses to China. Surplus equipment not within presently approved Chinese programs but included in the list submitted would be so small as to be insignificant. The most desirable means of meeting future Chinese requirements of this type would be by legislative authority similar to Public Law 75 of the 80th Congress.²¹ Under this authority items not found surplus may be procured.

Sincerely yours,

KENNETH C. ROYALL

593.24/1-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 26, 1948—7 p. m.

[Received January 27—5:57 a. m.]

162. Question of automotive spare parts contract (reDeptels 1596, December 31, 8 p. m.²² and 89, January 21, noon²³) discussed here January 9 with Captain Luboshez and Colonel Anderson of OFLC Shanghai, following which *aide-mémoire* January 12 handed by Minister-Counselor²⁴ to Dr. George Yeh, Vice Foreign Affairs Minister.

In conversations with Embassy officers on January 16 and 24, Yeh stated emphatically that Chinese Government had no intention of using unfilled contract to embarrass US Government in any way. He requested, however, that question of availability automotive spare

²⁰ For report to Congress on assistance to Greece and Turkey for period of three months ending March 31, 1948, see Department of State publication No. 3149.

²¹ Approved May 22, 1947; 61 Stat. 103.

²² *Foreign Relations*, 1947, vol. VII, p. 939.

²³ Not printed.

²⁴ Lewis Clark.

parts again be investigated by US Government owing to lack of which 3,000 trucks now immobilized in Chinese Army which has urgent need therefor. He said that Foreign Office had received information to effect such parts available in Japan and Hawaii; that purchase price by Chinese Government of parts on open market in USA would be about 10 times higher than under his contract.

Yeh said that if final investigation reveals parts not available to fulfill contract, Embassy should so inform Foreign Office by note, upon receipt of which he would arrange for General Kiang of Bosey²⁵ to accept refund and cancellation of contract.

Sent Department 162; repeated Shanghai for OFLC 77.

STUART

893.50/1-2848

*Memorandum of Conversation, by the Secretary of State*²⁶

[WASHINGTON,] January 28, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. Tsu-yi Pei, Head of Chinese Technical Economic
Mission to the United States
The Secretary
Mr. W. Walton Butterworth, FE

The Chinese Ambassador accompanied Mr. Tsu-yi Pei, the Head of the Technical Economic Mission to the United States, to call upon me. Mr. Pei brought the usual greetings from the Generalissimo²⁷ and Madame Chiang, General Chang Chun,²⁸ Mr. Wang Shih-chieh²⁹ and others. I asked Mr. Pei a number of questions regarding other Chinese personalities and regarding conditions in Nationalist-held territory.

Only three statements worthy of record were made by Mr. Pei or Dr. Koo. The former stressed the urgency of China's needs, indicating that dollar assets had rapidly declined since June and were now nearing \$150,000,000. Secondly, he asked whether a 100-million-dollar credit could be given the Chinese Government to take care of further arms purchases. In this connection he expressed appreciation for the actions of the United States Government in making available equipment and ammunition surplus to the U. S. Army's needs at very moderate prices. He pointed out that repair and transportation charges were very heavy. In reply, I stated that his request would

²⁵ Gen. P. Kiang, Director of Board of Supplies of the Chinese Executive Yuan.

²⁶ Drafted by the Director of the Office of Far Eastern Affairs (Butterworth).

²⁷ Chiang Kai-shek, President of the National Government of the Republic of China.

²⁸ President of the Chinese Executive Yuan.

²⁹ Chinese Minister for Foreign Affairs.

be given consideration. Dr. Koo referred to the arrangements with Olin Industries, stressing the urgency of China's need for .50 caliber ammunition. He stated that the present delay was being occasioned by the non-conclusion of the contractual arrangement between Olin Industries and the Army and asked whether I could intervene to accelerate action. I requested Mr. Butterworth to take the matter up with the Department of the Army to see what could be done to expedite action.

G[EORGE] C. M[ARSHALL]

[The following was added by Mr. Butterworth:]

I got in touch with General Timberman, P & O, Department of the Army, and recounted to him the Chinese Ambassador's statement and the Secretary's request. General Timberman later called me back to say that certain legal difficulties had arisen due to differences in the cost of the Army's ammunition and that being manufactured under the contract with the Chinese Government, that an attempt was being made to solve these difficulties and that a representative of Olin Industries was coming to Washington next week to discuss the situation. General Timberman agreed to keep me informed of developments. W. W. B.

893.24/1-2648 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 28, 1948—7 p. m.

144. Emb should urgently inform FonOff by note that as result of Embtel 162 Jan 26 FLC again raised with Army question of availability of automotive spare parts and was informed these parts not available from any surplus source. Emb may state informally to Vice Minister that any parts which may have been seen in Hawaii or Japan are normal Army stocks and are not available as surplus. Emb should press Yeh arrange with Bosey for early acceptance refund and cancellation contract.

MARSHALL

711.93/1-2948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 30, 1948—1 p. m.

153. Third paragraph of your number 181 January 29³⁰ contains expression "unless effective military assistance is forthcoming". Just what do you mean by the word "effective".

³⁰ *Post*, p. 464.

Are you referring to material, or to leadership, or to advice, or to wholesale removal of incompetent or venal commanders, or to American troops, or to what?

Are you considering long-range result of charge of United States acceptance of responsibility for a military campaign with its inevitable international perils and probable tremendous demands of one kind or another?

I understand the proposals of your no. 181 regarding civilian matters but I am not clear as to military. Please give me your own personal and individual reaction.

MARSHALL

893.20 Missions/1-3148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 31, 1948—5 p. m.

[Received January 31—9:02 a. m.]

193. Referring to your 153, January 30, 1 p. m., I am convinced that we are so deeply involved already in Chinese affairs that we cannot avoid a certain share of responsibilities unless we promptly and completely withdraw AAG and NAG³¹ and all other forms of aid to China. This would result in disintegration of present government and rapid expansion of Communist influence. On other hand, I feel confident that the authorization given Gen. Barr in your 1436, November 28, 5 p. m.,³² if understood as permitting over-all planning to meet actual situation and as assuring supply of material he deems necessary, will be sufficiently effective to accomplish our purpose.

This would assume advice as to eliminating civil and military venal or incompetent personnel and other reforms intended to retain popular support without which no amount of American military or financial aid would be successful. There is in such a course an element of risk but I believe it to be abundantly worth attempting and the alternative seems to me unthinkable. General Barr would naturally keep you constantly informed so that any contemplated advice could be stopped if contrary to American global policy. On this basis we can reasonably look for new hope and more initiative in self-help.

The Generalissimo is probably aware of critical situation he is facing and would accept, however reluctantly, even unpalatable advice if he realized that further assistance were conditioned upon his acceptance.

STUART

³¹ Army Advisory Group and Navy Advisory Group.

³² *Foreign Relations*, 1947, vol. VII, p. 923.

893.24/2-348: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 3, 1948—7 p. m.

[Received February 4—9:01 a. m.]

213. In compliance with Deptel 144, January 28, 7 p. m., we delivered note Foreign Office today to George Yeh, Vice Minister, stressing need for immediate acceptance of refund of \$1,800,000 and cancellation contract for automotive spare parts. Yeh said he would take matter up immediately with Prime Minister and endeavor expedite authorization Bosey, Shanghai, accept refund and cancel contract. Difficulty was, he said, that money had been appropriated and if refund was accepted without special arrangements money would have to be covered into Treasury and reappropriated before it could be used for other purposes. Government agencies concerned were very anxious to avoid this and find some way of leaving money in US where it could be re-expended. This desire to have money available for re-expenditure appears to have been prime motive behind Chinese refusal hitherto to accept refund.

STUART

893.24/2-648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1948—8 p. m.

[Received February 7—10 a. m.]

241. Cheng Chieh-min, Vice Minister National Defense, expressed to me today his worry over the evidence that functionaries of the Chinese Government in the US were being too cautious in dealing with our responses to Chinese requests in respect of military acquisitions. He said, and I confirm, that he is one of the few people who have access to Generalissimo without prior appointment. He added that Generalissimo had vested in him authority to effect necessary military acquisitions.

We find possible confirmation in this in that in our conversations at Foreign Office, we have been told that Executive Yuan follows practice of referring to Foreign Minister all applications for foreign exchange for acquisition military supplies, with idea of centralizing control of procurement and reducing to minimum foreign exchange commitments, but that this procurement procedure has encountered difficulties from time to time when Generalissimo has specifically authorized some agency to procure certain products and Executive Yuan and Foreign Office are placed in position of being mere rubber stamps. Cheng Chieh-min suggested that with his authorization from Gen-

eralissimo acquisition of military supplies could be expedited and facilitated if direct contact could be established between him and OFLC. He suggested in this connection possibility of agreement in general terms between him and OFLC under broad terms of which individual acquisitions could be consummated.

To us it seems that procurement methods of Chinese Government have been so confused that it would be desirable for us to encourage such centralization as that envisaged by Cheng Chieh-min. As we see it, one of the principal difficulties in the procurement situation has been the number of agencies involved, with the result that at any given moment the Chinese Government is unaware of its actual matériel position.

We wonder, therefore, whether with the arrival of General Barr³³ the opportunity may not present itself for centralizing and channelizing future requests of the Chinese Government for assistance in procurement of military supplies. Barr's expert advice should aid us materially in formulating over-all policy and in deciding upon specific requests.

May I suggest, therefore, that the Department give consideration to desirability of authorizing me to suggest to Generalissimo that interests of China and US in this field might be served if he were to authorize Cheng Chieh-min to submit to Barr all future requests in military field in order that Barr may be in position to advise me as to recommendations I should make to my Government. This procedure, or some variation of it, would seem to me highly desirable.

In any event I should appreciate Department's instructions as to the nature of reply I should make to Cheng Chieh-min.

STUART

893.00/2-748: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1948—9 p. m.

[Received February 7—4:53 p. m.]

253. Subject is . . . message from Mukden³⁴ . . . with regard to ammunition supply problem Mukden area repeated to . . . Washington via Shanghai 7 February and received by me by officer messenger same date.

Upon receipt this message I called interested members of my staff and General Barr together and, after much discussion, I called on

³³ Maj. Gen. David G. Barr, newly appointed Chief of the Army Advisory Group in China.

³⁴ Not printed.

Generalissimo who, in answer to my questions, stated categorically and forcefully that he was determined to hold Mukden, Changchun and Kirin at all costs, that he was completely without ammunition to do so; that the ammunition made available in the Marianas could not arrive in time to be of use, and when available will be entirely inadequate to meet requirements. With pipeline almost empty, he feels desperate need for ammunition for Manchuria immediately.

We desire point out that the United States is entirely without firm information on ammunition situation Chinese Government armies. However, we feel shortage ammunition Manchuria very possibly as General Wei ³⁶ and Generalissimo report. Also we feel continued Government hold Manchuria not entirely matter of ammunition since Government forces there are over-extended and have lost initiative and by own admission Government is incapable opening land communication to Mukden area, so that all supply there through predictable future must be air lifted.

Furthermore as we have commented before any further serious military losses by Government in Manchuria will have severe military and political repercussions elsewhere. If Communist armies now operating Manchuria can be shifted south of Great Wall, it is difficult to see how Government can retain any hold north of Yellow River. In other words, Government loss Manchuria may possibly be factor precipitating general military collapse. In addition it would seem to us, and General Barr concurs in this, that it would be far cheaper for us to support Generalissimo now in an attempt to maintain at least a foothold in Manchuria than to support possible later attempt on his part to regain this foothold.

We realize the reluctance in the Department to become involved in the military situation in China. As we have pointed out on numerous occasions in the past, however, we are already considered involved in the Government's defeats and our prestige is already suffering. In the particular situation obtaining in Manchuria, our prestige is further involved in that the principal Government forces consist of 5 American trained and equipped divisions. Any aid we give to China, whether foodstuffs or assistance in rehabilitating the economy, is, in effect, indirectly assisting the military phases of the Government's activities. That aid will be wasted if the military position of the Government deteriorates to a point where its very existence is endangered. This will be the case unless we soon provide military assistance to meet the immediate practical situation confronting the Government in Manchuria.

³⁶ Gen. Wei Li-huang, Acting Director of Generalissimo Chiang Kai-shek's Headquarters in the Northeast and Commander in Chief of Northeast Bandit Suppression Headquarters.

I wish to reiterate that the situation really seems critical and I should appreciate being informed of the Department's reaction.

STUART

893.24/2-648 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 9, 1948—7 p. m.

215. Although Dept has no great confidence in Gen Chen Cheng Kai-min it would no doubt be advantageous (Embtel 241 Feb 6) for Chinese to centralize purchases for acquisition of military supplies. However Dept considers this administrative matter for decision by Chinese.

[MARSHALL]

893.20 Mission/1-3148 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 9, 1948—8 p. m.

212. There has been and is no lack of awareness here of seriousness situation in China as described in urtels 252³⁷ and 253 Feb 7 nor is there any lack of desire to take feasible action consistent with our overall interests and responsibilities toward assisting ChiGovt. I do not think however that such involvement as referred to urtel 193 Jan 30 [31] places upon us responsibility for course and conduct of the civil war and maintenance of the regime nor on the other hand do I think we should withdraw all aid from China. Regardless of propaganda efforts respecting our role in China US has not assumed and cannot assume responsibilities which can be undertaken only by ChiGovt. Course advocated by you would in effect place upon us those very responsibilities which would make it virtually impossible for us to amend our course regardless of ChiGovt actions or of other circumstances. Once thus committed our freedom of action would be lost.

You evidently misunderstood meaning my 1436 Nov 28³⁹ re Gen Barr's position. His advice to Gimo is to be given at latter's request on personal, informal and confidential basis. As was stated in my 1436 "I am however not willing that we should accept responsibility for Chinese strategic plans and operations." His advice must not in any way imply US commitment to furnish military matériel for operations resulting from acceptance his advice. There is at present no legal authority by which US can furnish such military matériel

³⁷ Vol. VII, p. 85.

³⁹ *Foreign Relations*, 1947, vol. VII, p. 923.

except Chinese can make purchases from FLC of limited surplus stocks now available and from Amer manufacturers. The foregoing should be made immediately clear to all concerned.

MARSHALL

893.24 FLC/2-1348

The Department of State to the Chinese Embassy

AIDE-MÉMOIRE

Reference is made to negotiations presently going on between representatives in Washington of the Chinese Government and the Field Commissioner for Military Programs, Office of the Foreign Liquidation Commissioner, for the purchase of combat aircraft under the 8½ Group Program.

It is learned that spare parts for P-51 aircraft are in critical shortage. Manufacturers have discontinued production and when present stocks are exhausted there will be no more procurable.

It is therefore suggested that if the Chinese Government plans to purchase P-51 aircraft under the 8½ Group Program it would be well advised were it to take advantage of present limited availabilities to purchase an adequate amount of the spare parts in question.

WASHINGTON, February 11, 1948.

893.24/2-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 11, 1948—6 p. m.

[Received February 12—4:16 a. m.]

278. We have again discussed with George Yeh, Vice Minister Foreign Office, cancellation contract for automotive spare parts, our 213, February 3, 7 p. m. Yeh says he will write us letter tomorrow agreeing cancellation contract and refund \$1,800,000, but at instance army expressing hope our Government will assist in obtaining available spare parts in future to extent same value. Chinese Ambassador Washington is being instructed to accept refund. We will confirm upon receipt note.

STUART

893.20 Missions/2-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 11, 1948—8 p. m.

[Received February 11—8:37 a. m.]

280. I understand that the United States has responsibilities other than those in China and I shall be guided by your 212, February 9,

8 p. m. In this connection, however, you may wish to see latest plea from Wei for ammunition. . . .

STUART

893.24/2-1648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 16, 1948—noon.
[Received February 16—9:44 a. m.]

302. Note agreeing cancellation contract for automotive spare parts. (Embtel 278, February 11, 6 p. m.) and requesting that \$1,800,000 be returned to Chinese Embassy Washington received. Note expresses hope that returned funds can be used to acquire available surplus property on most favorable terms to be negotiated. Text by airmail.⁴¹

Sent Department 302, repeated Shanghai for OFLC as 129, February 16, noon.

STUART

893.248/2-1848

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] February 18, 1948.

As the Chinese Ambassador and Mr. Tsu-yee Pei were leaving Mr. Thorp's⁴² office, the former invited himself to talk with me in my office and Mr. Tsu-yee Pei came along but did not participate in the subsequent conversation.

After a number of pleasantries, Dr. Koo referred again to his request for further information as to what determination the Secretary had arrived at as regards the Chinese Government's request for a credit of \$100 million for arms purchases. I again said that as far as I knew the Secretary was still considering it and went on to point out the nature of the program presented to Congress today⁴³ would free Chinese Government resources, which would otherwise be devoted to purchases of the products named in the bill, for use by the Chinese Government for arms or other materials.

Dr. Koo then went on to ask for the Department's intervention in the negotiations now taking place with FLC regarding combat planes and he stressed (a) the urgency of their need and (b) the desirability of having the planes made available in the Western Pacific rather than in the United States. I agreed to look into the matter.

⁴¹ Not printed.

⁴² Willard L. Thorp, Assistant Secretary of State.

⁴³ For correspondence on this subject, see pp. 442 ff.

Dr. Koo also complained that having accelerated action on the Zone of the Interior 8-1/3 Group Program purchases and having signed the mass contract, the Chinese Government was still unable to take delivery of the repair depot equipment now boxed and ready for shipment in Honolulu. In this connection he emphasized that he had the money in Washington to pay for it. I also agreed to look into this matter.

893.24/2-1948

Memorandum by the Chief of the Munitions Division (Cummins) to the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] February 19, 1948.

In accordance with our conversation, there is attached hereto a statement ⁴⁴ showing arms, ammunition, military aircraft and aircraft parts which have been licensed for export from May 26, 1947 through January 31, 1948. The total dollar value, as you will note on page 3, amounts to \$9,406,358.92. All of these items, excepting the 10,000,000 rounds of ammunition, were from commercial sources in this country. The 10,000,000 rounds, as you know, is the 7.92 ammunition which was in the hands of the Army.

MD has pending a license for the export of 600 20mm guns for the Chinese Air Force. The reason for holding this application is due to the fact that they are having difficulty in obtaining these guns from surplus or commercial sources.

There is also shown ammunition sold to China by the Army under contract dated January 7, 1948, and other ammunition under transfer consideration by the Army, as well as material to be included in the 8 1/3 Program.

Should you desire any further information on this subject, I will be glad to furnish it to you if it is available.

893.00/2-2448 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, February 24, 1948—4 p. m.

[Received February 25—1 : 35 p. m.]

95. Wei Li-huang, who enjoys the acquaintance of General Marshall, requests following message be delivered to Secretary:

"Am appealing to you to assist me in every way possible in my effort hold Northeast. Was sent Northeast too late hold area with forces

⁴⁴ Not printed.

and equipment now at my disposal. Desperately need ammunition for present troops and weapons and ammunition for Northeastern People's Militia and cargo planes move equipment and supplies into Mukden. Without your support and American assistance I do not believe I shall be able hold Manchuria, but with them, together with additional troops from intramural China, I am confident I can restore communications in and drive Communists from south Manchuria."

WARD

893.00/2-2448: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 24, 1948—8 p. m.
[Received February 25—10:36 a. m.]

346. We have had preliminary discussions with General Barr on Mukden's 120, February 19⁴⁵ and 121 February 20,⁴⁶ regarding military and political situation Manchuria and hope to discuss general question with Generalissimo upon his return Nanking, expected February 27. Barr is, of course, handicapped by lack of knowledge of actual situation Manchuria. Our best information is that Wei is requesting the impossible in that there are not three armies available to send to his support and we have a suspicion he may be aware of this fact. We should appreciate any comments Department may see fit to make.

Generalissimo's secretary has reiterated desperate need Chinese forces for .30 and .45 ammunition and has queried whether it would be possible to declare surplus such ammunition, and possibly other needed war supplies in Japan theater and in Philippines. When he was told of our commitments to Philippines, he argued rather cogently that such ammunition, which might be declared surplus in Philippines today, could be used much more effectively in the interest of Philippines by meeting actual urgent need in Manchuria and preventing China from going Communist with resulting jeopardy to Philippine security than it would be if held to protect Philippines against some possible future contingency. He wondered whether we could not use our influence to persuade Philippine Government of the validity of this argument. Also he thought similar supplies in Japan should be much more valuable to the US in meeting immediate China problem than if held in reserve for some future need in Japan. There is continuing and convincing evidence that Chinese need for ammunition is real and urgent and we should appreciate Department's comments on the above.

STUART

⁴⁵ Sent to the Department as telegram No. 88, vol. VII, p. 97.

⁴⁶ Sent to the Department as telegram No. 89, *ibid.*, p. 103.

893.24/2-2448

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, 24 February 1948.

DEAR MR. SECRETARY: Events of the past few weeks affecting China, especially in Manchuria, have again highlighted the need for ammunition by the Chinese Government. Little can be done by the Department of the Army to improve the situation quickly. As you know, the Surplus Property Act,⁴⁷ which is time consuming in its application, is the only real authority now existing to permit the transfer of munitions to China in any quantity.

The status of the transfer, since the lifting of restriction on military items, of ammunition to the Chinese under the Surplus Property Act is summarized below:

a. In the Marianas there are 3,864 tons of ammunition transferred to the Chinese Government which have been available for movement to China from Saipan since 7 January 1948.

b. There are an additional 59,462 tons of ammunition at the following locations, available for sale through OFLC to the Chinese Government:

Marianas (Saipan and Tinian)	14,696 tons
Hawaii	17,266 tons
Okinawa	27,500 tons (estimated)

It appears that the problem now, in the main, is that of transporting the ammunition to China. The Chinese Government apparently is without the means to effect early movement of the above tonnage. The Department of the Army, in order to assist the Chinese Government in moving this ammunition to China, has neither the authority to participate, nor the funds required to defray handling and transportation costs.

I trust that the above will serve to clarify the position of the Department of the Army in this matter.

Sincerely yours,

KENNETH C. ROYALL

[Enclosure]

Memorandum by the Director of Plans and Operations of the Army General Staff (Wedemeyer) to the Chief of Staff (Eisenhower)

WASHINGTON, 18 February 1948.

Subject: Status of Ammunition for Transfer to the Chinese Government

Discussion

1. A grand total of 63,326 tons of surplus ammunition has been earmarked for transfer to the Chinese Government. Of the total,

⁴⁷ Approved October 3, 1944; 58 Stat. 765.

OFLC has completed contracts with the Chinese Government for 3,864 tons (Inclosure #1).⁴⁸ The remaining 58,462 tons have been declared surplus by the Department of the Army to OFLC or is now in the process of declaration. All of this ammunition is located in Saipan, Tinian, Hawaii and Okinawa. The removal from its present location and shipment to China is a responsibility of the Chinese Government.

2. *Marianas*

a. An open end surplus sales contract was negotiated by OFLC in Shanghai and signed by the Chinese Government on 7 January 1948 for ammunition in the Marianas. The initial transfer under this contract involved 3,374.7 tons of ground type ammunition and 489.3 tons of aviation type ammunition, the latter applicable to the 8½ Group Program, all of which is located in Saipan. (Itemized list by type and quantity is attached as Inclosure #1.) A Chinese ship and labor to commence removal of this ammunition was scheduled for arrival at Saipan on 30 January 48. Neither ship nor labor had arrived at Saipan as of 3 February and no report of arrival has been received to date.

b. (1) On 15 January the Department of the Army, by radio to CinCFE,⁴⁹ directed that 725 tons of 100 pound bombs be declared surplus. 125 tons of 100 pound bombs are located in Saipan and 600 tons are located in Tinian (See Inclosure #2). Declaration forms are now being prepared by MarBo.⁵⁰ OFLC will negotiate the transfer contract upon receipt of the completed declaration forms. This ammunition is applicable to the 8½ Group Program.

(2) In addition to the 100 pound bombs, there are 5,850 tons of 250 and 500 pound bombs located in Saipan and 7,225 tons of similar types located in Tinian all of which is also applicable to the 8½ Group Program. Although available for declaration as surplus on 15 January 1948 with the 100 pound bombs, declaration of the 250 and 500 pound bombs is being withheld, at the request of the State Department, until specifically requested by the Chinese Government. (An itemized list of this ammunition, by type, quantity and location is attached as Inclosure #2)

c. On 3 February 1948, the Department of the Army by radio to CinCFE, ordered the declaration of an additional 896.41 tons of artillery ammunition (See Inclosure #3). Upon completion of the declaration forms, now being processed by MarBo. OFLC will add this transfer to the open end contract signed on 7 January 1948 and mentioned in paragraph 2 a above.

3. *Hawaii*. A total of 16,266 tons of ammunition in Hawaii is

⁴⁸ Subenclosures 1-4 not printed.

⁴⁹ Commander in Chief, Far East (MacArthur).

⁵⁰ Marianas-Bonin Command.

available for transfer to the Chinese Government (See Inclosure #4). 1,266 tons were declared surplus by Department of the Army radio to ComGen USArPac ⁵¹ on 19 January 1948. An additional 15,000 tons were declared surplus by Department of the Army radio to ComGen USArPac on 11 February 1948. Declaration forms are being prepared in Hawaii and will be forwarded to Department of the Army upon completion. OFLC upon receipt of the declaration forms, and State Department approval, will negotiate the sales contract in Washington with representatives of the Chinese Government.

4. *Okinawa.* CinCFE has notified the Department of the Army that a quantity of ammunition estimated roughly as 27,500 tons is available in Okinawa. The types, exact quantities and serviceability are unknown. CinCFE has stated that a 100% inspection would be necessary before executing declaration forms. Department of the Army has instructed CinCFE to determine if sale of this ammunition in bulk is acceptable to OFLC and the Chinese Government. If answer is affirmative, the 27,500 tons will be declared surplus by Department of the Army, and OFLC, if State Department then approves, will negotiate a bulk contract in Shanghai for the entire amount.

5. *Zone of Interior.* The Department of the Army has prepared and delivered to Olin Industries, Inc., a contract for the exchange of 6.5 million rounds of caliber .50 ammunition from U. S. Army stocks in return for a quantity of newly manufactured ammunition. Olin Industries is arranging resale of the 6.5 million rounds to the Chinese Government. The ammunition from U. S. Army stocks is Armor Piercing, Incendiary and Tracer linked in ratio 2-2-1, and is packed ready for overseas shipment. Olin Industries will sign the contract with the Army upon receipt in writing from the Bureau of Internal Revenue, the exact amount of the excise tax payable on the ammunition to be manufactured and returned to the Army. A Chinese representative has indicated willingness to accept the price which Olin Industries expects to offer to his government. Olin will complete the separate contract with the Chinese Purchasing Agent following signature of the contract with the Army. It is expected that the contracts will be signed on Tuesday, 17 February 1948. Delivery of the ammunition at U. S. Army depots to transportation, arranged by Olin for the Chinese, is expected to commence within 10 days following the signing of the two contracts.

6. Completion of contracts for transfer of the remaining 58,462 tons of surplus ammunition may be quickened with the negotiation of a contract by OFLC for sale of this remainder as bulk. This would eliminate the necessity of the time consuming preparation of

⁵¹ U. S. Army, Pacific.

declaration forms which at present itemize in detail all supplies transferred by each contract. Further, the negotiation of contracts by OFLC and the transfer dates of ammunition stocks would be considerably advanced if initially there is an "open end" contract negotiated for this transfer in bulk of surplus ammunition. This procedure, if established, would be the appropriate action of the State Department which is responsible for the policies governing operations of OFLC.

7. To further expedite the delivery of surplus ammunition to China by increasing the degree of assistance the Department of the Army has neither funds nor the appropriate authority.

a. For the Department of the Army to assist in delivery to the mainland of China, ammunition already transferred to Chinese ownership, there would be required, in addition to an allocation of funds, either legislation or an Executive Directive giving the necessary authority.

b. It is considered that the Department of the Army has authority to transport surplus U. S. military supplies to any location prior to relinquishing ownership. The delivery of surplus ammunition to the mainland of China prior to transferring ownership to the Chinese Government would require, however,

(1) An allocation of funds to the Department of the Army for transportation and handling costs, and

(2) National policy with respect to military aid for China that would permit the Department of the Army to transport surplus military supplies to China for sale to the Chinese Government.

Conclusions

8. In view of the foregoing, it is concluded that:

a. Contractual negotiations with the Chinese Government can be expedited by Department of State policy direction to OFLC permitting transfer of surplus ammunition without prior lengthy preparation of declaration forms.

b. The Department of the Army can render assistance in delivery to the Chinese Mainland, surplus ammunition already transferred to Chinese ownership, only if:

(1) Given appropriate authority through legislation or an Executive Directive;

(2) Funds are made available to the Department of the Army proportional to the degree of assistance to be rendered.

c. The Department of the Army can expedite delivery to China, surplus ammunition not yet transferred to the ownership of the Chinese Government, provided:

(1) Funds are made available to the Department of the Army for transportation and handling costs.

(2) The Department of the Army receives a national policy statement that will permit transporting of military supplies to China for sale to the Chinese Government.

d. In the absence of appropriate funds and authority as described in paragraphs 8 *b* and 8 *c supra*, the movement of surplus ammunition to China will follow transfer of ownership and will be entirely in the hands of the Chinese Government.

Recommendation

9. It is recommended that the attached letter to the Secretary of State ⁵² be presented to the Secretary of the Army for signature.

A. C. WEDEMEYER
Lt. General, GSC

893.24/2-2648

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] February 26, 1948.

Participants: Dr. Shao-Hwa Tan, Minister, Chinese Embassy
Mr. Butterworth, FE
Mr. Ringwalt, CA

Dr. Tan called at Mr. Butterworth's office at four o'clock this afternoon by appointment to discuss a number of problems of mutual interest and took the occasion to review the recent efforts of the Chinese Government to obtain munitions in this country.

Dr. Tan referred to the two detailed memoranda of November 4, 1947 and December 23, 1947 ⁵³ which his Embassy had sent to the Department outlining the needs of the Chinese Government for arms and munitions. He said that it was his understanding that copies of these memoranda had been sent to the Department of the Army.

Dr. Tan expressed gratification that since the presentation of the above memoranda considerable progress had been made. He referred specifically to the signing of the contracts in connection with the 81½ Group Program, the purchase of the 150 C-46 aircraft and the ammunition deal at Saipan. Notwithstanding the completion of these contracts, however, Dr. Tan expressed the opinion that in certain respects the efforts of the Chinese Government to obtain munitions were being frustrated by unnecessarily protracted negotiations. He referred in particular to the Olin Industries deal, the contract for which had been signed on December 9, 1947, but in view of its complicated nature had not been finally cleared until 4:00 p. m. on February 25, 1948.

⁵² Dated 24 February 1948, p. 18.

⁵³ *Foreign Relations*, 1947, vol. VII, pp. 913 and 934, respectively.

He also brought up the question of the combat aircraft still due under the 8½ Group Program and the delay in the transfer of the aircraft engine overhaul plant in Hawaii. With respect to the former he pointed out that there was a considerable difference of opinion between the Chinese Air Force, the United States Army Air Force in Washington, and the Army Advisory Group as to the number of aircraft still to be transferred under the Program. He said that the Department of the Air Force had agreed to explore the possibility of obtaining surplus aircraft for this Program from the Pacific.

With regard to the aircraft engine overhaul plant, Dr. Tan stated that his Government was particularly anxious to obtain this equipment but that final negotiations have not yet been completed for its shipment to China. He said that in the past it had been found helpful for the various representatives concerned of the Armed Forces, the Department of State and the Chinese Government to confer together and he recommended that in order to expedite action similar conferences be held on outstanding questions.

Mr. Butterworth replied that with respect to conclusion of contracts for the purchase of munitions the Chinese representatives themselves should shoulder a certain responsibility. He pointed out that whereas the ban on export licenses of ammunition destined for China had been lifted in May 1947 it was not until after he had spoken to General Pee⁵⁴ in September that the Chinese had displayed any interest in the purchase of arms in this country.

With respect to the memoranda submitted by the Chinese Embassy on their need for munitions Mr. Butterworth said that we had requested the Department of the Army to investigate thoroughly the problem of surplus munitions which might be made available for transfer to the Chinese Government and that he hoped to communicate with the Chinese Embassy shortly in regard to this matter.

With regard to the discrepancy in the number of planes due for transfer to China under the 8½ Group Program, Mr. Butterworth suggested that these were factual matters which the various agencies concerned should be able to work out satisfactorily.

Mr. Butterworth said that the Department would be glad to call meetings of representatives of the agencies concerned with transfer of munitions to China whenever it was likely such meetings would serve a useful purpose.

Mr. Ringwalt informed Dr. Tan that he had been advised by the Department of the Air Force that there were no combat aircraft in the Pacific surplus to the needs of our armed forces, and that any aircraft to be delivered under the 8½ Group Program would therefore have to

⁵⁴ Brig. Gen. Peter T. K. Pee, Chinese Military Attaché.

come from the United States. He said that he had been informed that because of prior commitments, lack of competent personnel, and the inevitable deterioration of aircraft in storage, it was the view of the Air Force that the combat aircraft could not be delivered before six to eight months. He volunteered that he was recommending to the Department of the Air Force that an equivalent number of combat aircraft be substituted for the bombers which were called for in the 8½ Group Program but which were in short supply and therefore unavailable.

With respect to the shipment of the aircraft engine overhaul plant, Mr. Ringwalt explained that according to Colonel Kingman, Military Programs Field Commissioner, FLC, final arrangements had been held up pending the receipt of an estimate by the authorities concerned in Hawaii as to the cost of moving the equipment to the dock at Honolulu. He said that he had just received information from Colonel Kingman to the effect that this estimate had now reached Washington and that instead of the customary 15 percent procurement cost deposit required of purchasers of surplus property, in this instance the Chinese Government would be required to pay only about 6.24%. Mr. Ringwalt stated that it was his understanding that final arrangements could now be completed.

A[RTHUR] R. R[INGWALT]

893.24/2-2648

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] February 26, 1948.

Participants: Dr. Shao-Hwa Tan, Minister, Chinese Embassy
Mr. Butterworth, FE
Mr. Ringwalt, CA

Dr. Tan called at Mr. Butterworth's office at four o'clock this afternoon by appointment to discuss a variety of subjects, including a request made by the Kwangsi Provincial Government for arms and ammunition.

Dr. Tan stated that he had received a telephone call from Mr. Margrave of MD ⁵⁵ in regard to a letter which the Department of State had received from the Commercial Commodities Company, Inc., of Los Angeles, ⁵⁶ in regard to a request made by the Kwangsi Provincial Government for a supply of small arms and ammunition. He said that Mr. Margrave indicated that he had called at the request

⁵⁵ Robert N. Margrave, Munitions Control Office of the Munitions Division.

⁵⁶ Not printed.

of Mr. Ringwalt to ascertain whether this transaction had the approval of the Chinese Embassy. Dr. Tan added that he had sent a wire to his Foreign Office for instructions. He expressed appreciation for the cooperation of the Department and requested that all future cases of this nature be referred to his Embassy for approval as such a procedure would tend to keep arms and munitions from falling into the hands of unauthorized persons.

893.24/2-2448

The Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, March 1, 1948.

DEAR MR. SECRETARY: I have received your letter of February 24, 1948, and welcome the information contained therein to the effect that further substantial tonnages of ammunition have been located which can be made available for sale through OFLC to the Chinese Government. I am taking steps to facilitate the consummation of these sales.

I appreciate the difficulties under which the Department of the Army is operating in determining the surpluses which can appropriately be made available to the Chinese Government. At the same time I believe that every effort should be made to make these determinations and to make surplus disposal of such supplies and equipment as may be useful to the Chinese. I have particularly in mind the desirability of determining to what extent Chinese requirements, as set forth in the lists mentioned in Mr. Lovett's letter of December 31, 1947,⁵⁷ can be met from stocks surplus to the Army's needs and where such surplus material is located.

With reference to your question whether the Chinese Government should be supplied with bombs larger than 100 pounds, this Department has been informally advised by the Chinese Embassy that it is the intention of the Chinese Government to utilize such large bombs for salvage purposes.

Faithfully yours,

G. C. MARSHALL

893.24/3-148 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 1, 1948—6 p. m.

322. Supplementary surplus property agreement covering sale aircraft engine overhaul plant equipment Hawaii signed Feb 28 and

⁵⁷ *Foreign Relations*, 1947, vol. VII, p. 938.

payment received. (Sent Nanking as 322 repeated Shanghai as 370.)

Movement from Hickam Field depot to port will be made on request of Chinese authorities.

MARSHALL

893.00/2-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 1, 1948—6 p. m.

323. 1. Please instruct ConGen Mukden to convey orally to Gen Wei Li Huang a courteous acknowledgment his message contained Mukden's 95 Feb 24, 4 p. m. Also pass on to him apropos Mukden's 89 Feb 20⁵⁸ and your 346 Feb 24, 8 p.m. info contained in pars. 2 and 3 which he can orally draw upon in his conversation with Gen Wei. At same time you should make clear to ConGen that only legal means by which USGovt can assist ChiGovt in obtaining military equipment and ammunition from this country is to issue export licenses covering commercial purchases by ChiGovt from Amer manufacturers and by sale by FLC to ChiGovt of material and ammunition declared surplus to US Army's needs. You should also apprise Ward of reasons why it is impossible to comply with any such suggestion as use of 200 Army planes to deliver supplies into Mukden. You should also indicate to Ward impropriety of US Govt taking action on basis personal requests from individual Chi generals in field.

2. Surplus ammo being loaded Chi ship now at Saipan includes following items:

.30 cal AP	12,783,000 rds,	481.4 tons;
.30 cal tracer	8,742,000 rds,	320.4 tons;
60 MM Mortar	100,000 rds,	226.0 tons.

Efficient utilization by ChiGovt of its air facilities should be sufficient effect rapid air transport from port of arrival to Northeast. For your info Gen Brown FLC, recently returned from Manila, is of opinion that PhilGovt has little if any small arms ammo excess to their current requirements. So far as stocks in Japan are concerned we understand they are committed to other programs. However Army has now found in Saipan, Tinian, Hawaii and Okinawa ammo which it can declare surplus to its needs which may amount to as much as 60,000 tons. Exact types and quantities not yet known. Arrangements will proceed as speedily as possible.

3. Dept informed first group of 150 C-46's purchased by Chi have been flown to West Coast for final reconditioning before onward flight.

⁵⁸ Vol. VII, p. 103.

ChiEmb has completed arrangements for balance of planes to be removed from storage and readied for flight to reconditioning depots.

MARSHALL

893.24/1-3148

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] March 2, 1948.

At my request the Chief of the Division of Chinese Affairs telephoned Dr. Tan on March 1 and asked him to call upon me today.

I informed Dr. Tan that the Department of State had now received official confirmation from the Department of the Army of the preliminary estimates of ammunition available in Saipan, Tinian, Okinawa, and Hawaii which the Secretary had referred to in his testimony before the Foreign Affairs Committee of the House of Representatives on February 20.⁵⁹ Now that the Army had officially notified the Department that it would declare this ammunition surplus to its needs the OFLC had been similarly informed. I gave Dr. Tan the main breakdown and in response to his request indicated that I would take steps to supply him with details which might not be wholly accurate regarding the types and quantities available in Saipan, Tinian, and Hawaii. As regards Okinawa I pointed out that the total named constituted merely a rough estimate.

I took this occasion to cast a fly over Dr. Tan in the matter of certain information contained in Mr. Bullitt's ⁶⁰ testimony today before the Foreign Affairs Committee of the House ⁶¹ a good deal of which was clearly based on information obtained from the Chinese Embassy. I said to Dr. Tan that I had heard at lunch in the Metropolitan Club that Mr. Bullitt had vouchsafed the fact that the Chinese had not been officially informed of the information which I was now conveying to him and which Mr. Ringwalt had yesterday arranged this appointment for the purpose of conveying to the Chinese Embassy, and I wondered whether he could throw any light on how Mr. Bullitt came into possession of information regarding such negotiations between our two Governments. Dr. Tan was obviously somewhat at loss as to how to meet this query and from my knowledge of him I should say that he was not inclined to approve tactics of this kind. By way of reply he merely said that when Mr. Bullitt's article

⁵⁹ *United States Foreign Policy for a Post-War Recovery Program: Hearings before the House Committee on Foreign Affairs, 80th Congress, 2d sess.* (Washington, Government Printing Office, 1948), pt. 2, pp. 1545 ff.

⁶⁰ William C. Bullitt, former Ambassador in the Soviet Union and in France.

⁶¹ *United States Foreign Policy for a Post-War Recovery Program*, pt. 2, pp. 1897 ff.

had appeared in *Life* he had learned many things which he had not previously known himself.

I took this occasion also to call Dr. Tan's attention to the fact that, although the Embassy had purchased houses and buildings from private individuals in accordance with the terms of the Surplus Property Agreement of August 30, 1946,⁶² it had not yet received the titles for the properties specified in the Annex to that agreement and other properties purchased which were in the ownership of a Chinese Government entity (Embtel 190, January 31, 10:00 a. m.⁶³). I referred to the undertaking of the Chinese Government to make the requisite transfers "promptly". I also pointed out that, although the delay was no doubt merely a technical oversight, it was causing embarrassment to the Office of Foreign Buildings in its dealings with the Appropriation Committees, and under existing statutes the Department was limited in the matter of repairs, et cetera, as regards properties the titles of which were not vested in the United States.

Before leaving Dr. Tan asked whether the Department would again look into the possibility of supplying the combat planes due under the 8½ Group Program from Pacific sources. He indicated that, although the Embassy had been informed that in response to a query from the Department General MacArthur had stated that no such planes were available as surplus in his theater, the Chinese authorities had informally learned from individual Army officers in the Department of the Army that in their opinion, if the authorities in Washington would be prepared to supply in due course more or less new planes from the United States to General MacArthur, he would be prepared to make available serviceable although somewhat used planes from his command. I said I would have his suggestion looked into.

893.24/3-248

The Director of the Office of Far Eastern Affairs (Butterworth) to the Director of Plans and Operations of the Army General Staff (Wedemeyer)

[WASHINGTON,] March 2, 1948.

MY DEAR GENERAL WEDEMEYER: Reference is made to my letter of December 16, 1947⁶⁴ in regard to arrangements for the transfer to China of surplus ammunition located in the Marianas, and to the Secretary of the Army's top secret letter of February 24, 1948 in regard to additional stocks of surplus ammunition located in various

⁶² *Report to Congress on Foreign Surplus Disposal, October 1946*, p. 40.

⁶³ Not printed.

⁶⁴ Missing from Department files.

bases in the Pacific. As indicated in the Secretary of State's letter of March 1, 1948 the Department of State is taking steps to facilitate the sale of this ammunition to China. Arrangements should now be consummated by the Department of the Army to effect the transfer to China of the stocks referred to in Secretary Royall's letter of February 24, 1948.

This authorization should likewise be considered as covering any additional stocks which may be declared surplus in these bases or other bases in the Pacific.

The OFLC on December 16, 1947 was authorized to accept for transfer to China surplus stocks in foreign areas and the Zone of the Interior, including Hawaii.

Sincerely yours,

W. WALTON BUTTERWORTH

893.24/3-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 3, 1948—4 p. m.

[Received March 3—9:06 a. m.]

400. In taking inventory possible surplus ammunition Saipan, Tinian, Hawaii, Okinawa, Deptel 323, March 1, 6 p. m., may we suggest desirability screening small arms ammunition first and declaring such ammunition surplus to FLC in each locality as availability ascertained rather than waiting for completion entire inventory. Need is urgent and every possible means expedite action necessary.

STUART

893.24/3-348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 4, 1948—5 p. m.

345. Action recommended urtel 400 Mar. 3 approved and will be adopted. Chinese Emb has been informed of FLC's readiness to open negotiations for purchase surplus ammo Hawaii and Pacific. Despite repeated requests by Chinese Emb for surplus ammo and advance notice given Chinese Emb informally of likelihood that ammo in question would be available, Chinese Emb now states that no Chinese rep here empowered to negotiate purchase Hawaii surplus and it is requesting instructions. Please recommend prompt action by FonOff and at same time suggest that Chinese Govt begin making shipping arrangements for moving supplies to China.

FLC instruction to Luboshez regarding Pacific surplus went forward yesterday.

MARSHALL

893.24/12-2347

The Department of State to the Chinese Embassy

MEMORANDUM

Responsive to the Chinese Embassy's memoranda of November 4, 1947 and December 23, 1947 ⁶⁵ with which were transmitted lists of military supplies urgently needed by the Chinese Government, the Department of State encloses three lists prepared by the Department of the Army ⁶⁶ indicative of the amount and type of ammunition in Hawaii and the Pacific now available for purchase by the Chinese Government through surplus channels. It should be understood that a portion of this ammunition may upon inspection prove to be unserviceable or unstable and that the final tonnages available for purchase by the Chinese Government may thus be considerably less than those listed in the attached enclosures.

It is learned that there are additional quantities of surplus ammunition located in Okinawa. A preliminary survey indicates that these stocks may total approximately 27,500 tons. The Chinese Government will be furnished figures on tonnages and types of this ammunition as soon as available.

There is also enclosed a list ⁶⁷ of the surplus ammunition at Saipan which was transferred to the Chinese Government under the contract of January 7, 1948.

WASHINGTON, March 4, 1948.

893.20 Missions/2-1148

The Director of the Office of Far Eastern Affairs (Butterworth) to the Minister-Counselor of Embassy in China (Clark)

WASHINGTON, March 8, 1948.

DEAR LEWIS: In connection with your telegram no. 280 of February 11, I have been asked to reiterate and emphasize to you the reasoning upon which the Secretary's telegram no. 212 of February 9 was based. If you will read this telegram again, particularly the last three sentences of the first paragraph, you will note that it is not merely predicated upon the requirements of meeting United States responsibilities, actual and potential, in other areas of the world although these are and will be large and increasing. It is in large part predicated upon the undesirability of the United States assuming responsibilities and commitments in China which in themselves would inevitably

⁶⁵ *Foreign Relations*, 1947, vol. VII, pp. 913 and 934, respectively.

⁶⁶ None printed.

⁶⁷ Not printed.

destroy our freedom of action and impose upon the United States burdens which it cannot bear and dangers which it should not, in present circumstances, risk.

I enclose a copy of the prepared statement which the Secretary made in the Executive Sessions to the Foreign Relations Committees of the House and Senate.⁶⁸ At both sessions, he elaborated on this statement at various points and, of course, in replying to questions put to him by members of the Committees.

I cannot overemphasize the confidential character of this document. I do not think it should leave the Chancellery. At the same time, I hope you will find means of showing it to Jack Cabot⁶⁹ and to other principal collaborators and assistants.

As ever,

W. WALTON BUTTERWORTH

593.24/3-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 11, 1948—11 a. m.

[Received March 11—3:22 a. m.]

445. For Butterworth from Clark. In casual conversation Admiral Badger ComNavWesPac⁷⁰ indicated willingness and ability to make available to China urgently needed ammunition landed China's stockpile, say Shanghai, from sources within his command making replacements from trans-Pacific pipeline. Specifically he suggests possibility loading US ammunition located Philippines on inter-island vessel for shipment China theater and declaring it surplus en route thus making it available to China on arrival China port.

Suggest you may wish canvass this possibility with Navy Department. Badger has agreed this approach and will welcome inquiry from Navy. [Clark.]

STUART

711.00111 Armament Control/1-2948

Memorandum by Mr. Robert N. Margrave, of the Munitions Division

[WASHINGTON,] March 17, 1948.

The Munitions Division received a letter from the Commercial Commodities Company, Inc.,⁷¹ of Los Angeles with respect to an inquiry from the Kwangsi Government, south China, for a quantity of muni-

⁶⁸ *Post*, p. 479.

⁶⁹ John M. Cabot, Consul General at Shanghai.

⁷⁰ Vice Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.

⁷¹ Not printed.

tions, including 5,000 TSMG,⁷² 2,000 .22 caliber carbines, 1,000 .45 caliber Colt automatics, 2,000 .38 caliber revolvers, and ammunition for these. In response to a memorandum, Mr. Ringwalt, CA, stated that, while he perceived no objection to the sale of this matériel to the Kwangsi Provincial Government, that approval was contingent upon the approval of the Chinese Embassy.

Accordingly on February 24, 1948, I contacted General Pee, Chinese Military Attaché, and Dr. Tan, Minister at the Chinese Embassy. They informed me that they were most desirous of checking this matter with their own Government and requested that the Department hold up action on the request until they had an opportunity to make that check. It was agreed that General Pee would inform me of the result of the investigation within two weeks.

On March 10, 1948, General Pee informed me that the Chinese Government and Embassy does not approve of the proposed munitions export to the Kwangsi Government and requested the cooperation of the Department in not approving such an export. I informed him that the Department was very glad to receive this information and would proceed accordingly.

893.24/3-1748

The Chinese Minister (Tan) to the Chief of the Division of Chinese Affairs (Ringwalt)

WASHINGTON, March 17, 1948.

DEAR MR. RINGWALT: Confirming my conversation with you over the phone on the 15th instant that my Government is in need of the 250 pounds, 300 pounds and 500 pounds bombs located at Saipan and Tinian, I am directed by the Ambassador to request that they be declared surplus and made available to us. Kindly communicate this information to the appropriate authorities. I am also instructed to express that it will be greatly appreciated if the list for the surplus ammunition located in Okinawa would be sent to us as soon as possible.

Regarding the items of equipment for the 8½ Group Program for the Chinese Air Force under the Supplementary Agreement No. W-ANL(MP-1)-353 China 2 (1P), I should like to take this opportunity to inform you that General Mow's office received on the 16th instant a cable from his representative, Major Hu, to the effect that no documents had been received as yet by the United States Depot officials in Hawaii and that it was impossible to make the first shipment on the boat scheduled to sail on the 22nd instant as expected. Major Hu has also indicated in another communication that a number

⁷² Thompson Submachine Guns.

of heavy boxes containing many of such items of equipment have been left in the open air and that according to his observation the contents must have been seriously affected by weather conditions. I understand General Mow's office has communicated with Colonel Allen F. Kingman about this matter.

Yours sincerely,

SHAO-HWA TAN

893.24/3-1848

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] March 18, 1948.

The Department of the Army, in its letter of February 24, 1948, stated that, in addition to the ammunition in the Marianas already transferred to the Chinese Government, there were "an additional 59,462 tons of ammunition at the following locations, available for sale through OFLC to the Chinese Government:

Marianas (Saipan and Tinian)	14,696 tons
Hawaii	17,266 tons
Okinawa	27,500 tons
	(estimated)".

The penultimate paragraph of this letter is as follows: "It appears that the problem now, in the main, is that of transporting the ammunition to China. The Chinese Government apparently is without the means to effect early movement of the above tonnage. The Department of the Army, in order to assist the Chinese Government in moving this ammunition to China, has neither the authority to participate, nor the funds required to defray handling and transportation costs." From this paragraph it would appear that it is the intent of the Department of the Army to place upon the Department of State the responsibility for initiating action in support of a program which would place on this Government the responsibility for the handling and transportation of the ammunition.

I have discussed with General Brown of FLC the feasibility of utilizing the special deposit of \$25,000,000 provided under the terms of the Surplus Property Agreement with China. It is his opinion, however, that the pertinent clauses of the Agreement preclude any use of this deposit. According to paragraph *c* of Article 3 this deposit is to be used "in accomplishing the transfer of the property *sold hereby*". Article 1 reads in part as follows: ⁷³ ". . . the United States sells . . . property . . . surplus to its needs except air-craft (and) nondemilitarized combat material. . . ."

⁷³ Omissions indicated in the original.

It would seem pertinent to review briefly the capabilities of the Chinese Government itself to move the surplus ammunition. According to a report prepared by the Office of the Military Attaché at Nanking (Report No. R-92-48, dated January 30, 1948),⁷⁴ the Chinese Merchant Marine at present consists of the following ocean-going vessels:

13	Liberty Ships
5	LST's
60	other miscellaneous vessels some of which are Japanese
78	Total

In a study dated March 15, 1948,⁷⁴ prepared for me by DRF,⁷⁵ it is stated that China's present fleet is adequate and perhaps excessive for current commercial needs and that, in terms of vessels particularly suitable for moving large tonnages of cargo over ocean routes, China is better off than ever in its history. Although diversion of ships to military use has cut heavily into China's Merchant Fleet, it is generally understood that the effects of this diversion could be lessened if military traffic were better coordinated. In sum, it appears to me that the Chinese themselves are quite capable of, and should assume, the responsibility for the movement of the surplus ammunition which they purchase.

A[RTHUR] R. R[INGWALT]

893.24/3-1148: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 19, 1948—noon.

418. For Clark from Butterworth. CNO⁷⁶ Navy Dept states no ammo in Pacific surplus essential war reserves and to draw from such reserves would require action by JCS⁷⁷ and National Security Council. CNO therefore believes suggested action (Embtel 445, Mar 11) impracticable. [Butterworth.]

THORP

893.24/3-1948

The Counselor of the Department of State (Bohlen) to the Chairman of the Senate Foreign Relations Committee (Vandenberg)

WASHINGTON, March 19, 1948.

MY DEAR SENATOR VANDENBERG: You will recall that during the hearing on the draft China Aid Bill in Executive Session of the Sen-

⁷⁴ Not found in Department files.

⁷⁵ Division of Research for Far East.

⁷⁶ Chief of Naval Operations, Adm. Louis E. Denfeld.

⁷⁷ Joint Chiefs of Staff.

ate Foreign Relations Committee of February 27, Senator Wiley requested that the Committee be furnished pertinent information regarding the sales of surplus property by the United States Government to the Chinese Government, including an indication of the procurement cost, sales price and the terms of such sales.

Pursuant to that request, we are forwarding as an enclosure to this letter a memorandum in which is set forth the pertinent information, obtained from the Government agencies concerned, regarding the sales and transfers of U. S. surplus property to the Chinese Government.

It would be appreciated if this information could be communicated to Senator Wiley and made a part of the official records of the Senate Foreign Relations Committee.

Sincerely yours,

CHARLES E. BOHLEN

[Enclosure]

Memorandum Prepared in the Department of State

SALES AND TRANSFERS OF U. S. SURPLUS PROPERTY TO THE CHINESE
GOVERNMENT

The underlying table lists the various contracts and agreements between representatives of the U. S. Government and the Chinese Government covering the sales and transfers of U. S. surplus and excess stocks from 1945 to date and, where the information is available, indicates the procurement cost and the sales price or value of the stocks made available under each contract or agreement. Details regarding these transactions, including the terms under which these surplus stocks were sold or transferred to the Chinese Government, are set forth immediately following the table in paragraphs numbered to correspond with the numbers of the contracts and agreements listed in the table.

It should be noted that the sales and transfers of U. S. surplus property listed below are not included in the total of \$1,436.9 million of grants and credits authorized for China since V-J Day, which has been previously reported to the Congress. (See Appendix A, pp. 18-19, of the House Foreign Affairs Committee print of "Text of Proposed China Aid Bill and Background Information on Economic Assistance Program for China", February 20, 1948.) Moreover, parts of the information indicated below represent a summary recapitulation of that presented in Sections 9 to 11, pp. 26-30, of the document under reference. It is not possible to draw up a total for the surplus property transactions. In some cases the surplus stocks are still in the process of being transferred and the full value of the property will not be known until the transfers have been completed.

<i>Date of Contract or Agreement</i>	<i>Type of Surplus</i>	<i>Procurement Cost</i>	<i>Sales Price or Value Realized</i>
1. Nov. 29, 1945	U. S. Army Stocks in West China	n. a.	\$20, 000, 000*
2. May 15, 1946	Dockyard Equipment	n. a.	4, 000, 000†
3. Aug. 30, 1946	Civilian-type Surplus Property in China, India and on 17 Pacific Islands	\$824, 000, 000	175, 000, 000
4. (Nov. 29, 1945 (July 15, 1947 (Feb. 18, 1948 (Feb. 27, 1948	Surplus Ship Sales by the Maritime Commission	77, 300, 000	26, 200, 000
5. June 25, 1947	Rifle Ammunition	6, 566, 589	656, 658
6. Oct. 1947	T. N. T.	275, 000	99, 000
7. Nov. 6, 1947	Air Force Equipment	9, 449, 850‡	935, 312‡
8. Dec. 8, 1947	Naval Vessels	70, 589, 298	(gift)
9. Dec. 22, 1947	Transport Aircraft	34, 800, 000	750, 000
10. Jan. 7, 1948	Ammunition	4, 441, 337	44, 413
11. Jan. 30, 1948	Air Force Equipment	25, 292, 365	4, 426, 163
12. Jan. 31, 1948	Air Force Equipment	‡	‡
13. Mar. 17, 1948	Ammunition and other Matériel	n. a.	n. a.

1. On November 29, 1945 the U. S. Army, upon the occasion of its withdrawal from west China, sold to the Chinese Government its property in that area which consisted of a broad assortment of expeditionary supplies. This property was sold for down payments of CN\$5,160,000,000 and US\$5 million plus US\$20 million to be paid subsequently over time on terms to be agreed upon. The down payments were made in the form of offsets against the United States Yuan indebtedness to China, the US\$5 million down payment having been one of the considerations incorporated in the Surplus Property Sales Agreement of August 30, 1946. As the west China sales was made under pressure of departure, a detailed inventory of the property transferred could not be made and there is no estimate available regarding its procurement cost.

2. On May 15, 1946, the Foreign Liquidation Commissioner entered into a contract with the Chinese Government providing generally for the sale of surplus equipment for dockyards in Shanghai and Tsingtao. The equipment sold was to be evidenced by schedules of property to be attached as a part of the contract thereafter to be agreed upon. Payment is to be in 30 annual installments or, alternatively, the contract

*These stocks were sold for down payments of Chinese \$5.160,000,000 and US\$5 million, plus US\$20 million to be paid subsequently over time on terms to be agreed upon. The down payments were made in the form of offsets against the U. S. Yuan indebtedness to China, the US\$5 million down payment having been one of the considerations incorporated in the Surplus Property Sales Agreement of August 30, 1946 (Section 3). [Footnote in the original.]

†With reference to item 2 of table on preceding page [i. e., table above], according to the most recent information approximately \$4 million (fair sales value) of dockyard facilities and floating equipment have been delivered under this contract. [Footnote in the original.]

‡The procurement cost and sales value of surplus stocks under contract of November 6, 1947 also include the totals for the supplemental contract of January 31, 1948 for the sale of Air Force Equipment. [Footnote in the original.]

provides that the U. S. should have the right at its option to demand of China goods and services in the form of maintenance, repairs and operating supplies for vessels of the U. S. Navy and U. S. Government, provided such goods and services do not exceed 25% at any one time of the capacity or facilities of the dockyards concerned. The most recent information indicates that approximately \$4 million (fair sales value) of dockyard facilities and floating equipment has been delivered under this contract. An estimate of the procurement cost of these deliveries is not available at this time.

3. The Surplus Property Sales Agreement of August 30, 1946 between OFLC and the Chinese Government transferred fixed installations in China and movable property located in China and on 17 named Pacific Islands. The property sold under this Agreement included every type of supply used by an expeditionary force except combat matériel, vessels and maritime equipment, and aircraft, all of which were specifically excluded from the contract. Furthermore, the financial settlement under the Agreement took into account a number of miscellaneous sales contracts which had been negotiated previously.

Original cost of the property sold under the Agreement, together with that covered by miscellaneous sales contracts previously negotiated and recognized in the Agreement, amounted to approximately \$824 million, the realized return on which to the United States was \$175 million which the Chinese Government agreed to arrange as follows: (1) US\$150 million offset against the United States wartime indebtedness to China; (2) provision of a fund equivalent to US\$20 million fund for research, cultural and educational activities in China; and (3) the equivalent of US\$35 million for acquisition of property in China and for current governmental expenses. These items total US \$205 million, but the United States in turn agreed to establish a fund of US\$30 million to be used by China to cover the cost of shipping and technical services arising out of the property transfer.

Property sold under the Agreement itself had an estimated procurement value of \$584 million, the realized return on which was \$101 million. The procurement cost of property sold under the miscellaneous sales contracts recognized in the Agreement was estimated at \$240 million, the agreed-upon sales value having been \$74 million. (For further details see Appendix A, section 9, pp. 26-28, of the House Foreign Affairs Committee print of "Text of Proposed China Aid Bill and Background Information on Economic Assistance Program for China", February 20, 1948.)

4. The Maritime Commission has sold or approved for sale to China a total of 43 war-built surplus ships with a war-time procurement cost of approximately \$77.3 million, the sales price of which to China is reported to be \$26.2 million.

Ten of these ships (N-3 types) were sold for cash on November 29, 1945. On February 20, 1946, the Export-Import Bank authorized extension of a \$4.2 million credit to cover 75 percent of the sales price of these vessels plus the cost of their towing to China. This credit has not yet been disbursed. The amount of this credit is included in the \$1,436.9 million of grants and credits authorized for China since V-J Day as reported previously to the Congress.

The remaining 33 ships have been, or are being, sold on credit terms as authorized by the Merchant Ship Sales Act of 1946 which requires that 25 percent of the sales price be paid in cash. The balance of the sales price of these 33 vessels (approximately \$16.4 million) is to be repaid in annual installments over the economic life of the ships sold.

The following table provides comparative detailed data on the transactions indicated above:

<i>Ships Sold or Approved for Sale</i>	<i>Date of Sales Contract or Approval</i>	<i>Wartime Pro- curement Cost (In millions of dollars)</i>	<i>Sales Price</i>
10 N-3 Ships	Nov. 29, 1945	\$13.4	\$4.3
10 Liberties)	July 15, 1947	28.0	9.3
8 N-3 Ships)			
8 C1-M-AV1 Ships)	Feb. 18, 1948	28.4	10.0
4 C1-S-AY1 Ships)			
3 VC2-A-P2 Ships	Feb. 27, 1948	7.5	2.6
<hr/> 43		<hr/> \$77.3	<hr/> \$26.2

5. A contract dated June 25, 1947, provided for the sale by OFLC of 130 million rounds of 7.92 (Generalissimo rifle) ammunition for \$656,658.90. The procurement cost of this ammunition was \$6,586,589.02. The sales price was paid in cash in U. S. dollars at the time the contract was signed.

6. The War Assets Administration sold 1,100 short tons of T. N. T. to the Chinese Government in October 1947 on cash terms for \$99,000. The procurement cost of this material was \$275,000.

7. All surplus aircraft, Air Force property and property procured by all other U. S. military branches, except combat matériel and implements of war, located in the Pacific area and specifically earmarked for the 8½ Group Chinese Air Force Program, were covered by an OFLC basic contract signed November 6, 1947. This contract includes the following types of property:

- (a) Commercial-type aircraft;
- (b) Air Force supplies for commercial-type aircraft and for combat-type aircraft previously acquired by China under Lend-Lease;
- (c) Common user items, such as clothing, et cetera.

The procurement cost of surplus stocks presently accepted by the Chinese Government under this contract and under the supplemental contract of January 31, 1948 is \$9,449,850. The sales value of these

stocks is \$935,312. The sales value, as stated under the terms of the contract, is all aircraft at current Foreign Liquidation Commissioner's world-wide prices and remaining property at 12½ percent of the U. S. procurement cost. The Chinese Government maintains a deposit in U. S. dollars with the OFLC representatives at Shanghai against which are charged the payments due at the time the items under this contract are declared surplus and transferred to the Chinese Government for removal. No removals are permitted unless the amount of the deposit is sufficient to cover the cost of the items involved.

8. Naval vessels transferred by the U. S. Navy to the Chinese Government under Public Law 512, pursuant to an agreement between the U. S. Government and the Chinese Government signed on December 8, 1947, were not sold under surplus arrangements but were transferred as a gift. Ninety-six of these vessels had already been transferred under Lend-Lease. These were recaptured "on paper" for transfer under the agreement of December 8, 1947. The total invoiced value of these 96 vessels, together with 2 additional vessels transferred since that date, is \$70,589,298.

9. The War Assets Administration sold 150 C-46 transport planes to the Chinese Government on December 22, 1947 on cash terms for \$5,000 per plane, or a total of \$750,000. The procurement cost of these planes was \$34,800,000 (based on an average cost of \$232,000 for each plane).

10. An open-end contract between OFLC and the Chinese Government was signed on January 7, 1948 covering ammunition and explosives located in the Marianas separate and apart from the requirements of the Chinese Air Force 8½ Group Program. The procurement cost of the stocks presently accepted by the Chinese under this contract is \$4,441,337. The sales value is \$44,413 or 1 percent of the procurement cost.

11. All stocks in the United States, including Hawaii, available for the Chinese Air Force 8½ Group Program (with the exception of combat aircraft which are being made the subject of a separate contract) were sold to the Chinese Government under an open-end OFLC contract signed on January 30, 1948. Engine overhaul plant equipment located in Hawaii, having a procurement cost of \$1,360,898.50, was sold on February 28, 1948, payment being made by the Chinese Government in U. S. dollars on that date. The remaining equipment covered by the contract will be sold in groups, under successive supplementary sales agreements (schedules). Payment for the equipment covered by each such sales agreement (schedule) will likewise be made in cash U. S. dollars at the time of the signing thereof. The procurement cost of all stocks thus made available is

estimated at \$25,292,365. The total sales price can be estimated at 17½ per cent of procurement cost, or \$4,426,163.97.

12. A contract (supplementing that of November 6, 1947) was signed on January 31, 1948 covering the sale by OFLC of combat equipment in the Pacific applicable to the Chinese Air Force 8½ Group Program. Aircraft transferred under this contract are sold at current OFLC world prices and all other items, except ammunition, are sold at 12½ per cent of the procurement cost. Ammunition under this contract is sold at 1 per cent of the procurement cost. The procurement cost and sales value of the stocks presently accepted by the Chinese under this contract are included in the totals shown in paragraph 7 above. Chinese payments under this contract are being handled in the same manner as that provided for in the November 6, 1947 contract for Air Force Equipment (see 7 above).

13. An open-end contract was signed on 16 March 1948 between OFLC and the Chinese Government which will cover all available ammunition in Hawaii suitable for Chinese needs and other available surplus military stocks in the United States suitable for Chinese needs not already covered by the contract of 30 January 1948. The sales value of the stocks to be transferred under this contract is to be established sale by sale. The ammunition covered under this contract will be sold at either 5% or 10% of the procurement cost, depending upon the caliber of ammunition. Of this ammunition, there have been received by OFLC surplus property declarations to the amount of \$842,727.50 procurement cost. This has been offered to the Chinese at a sales price of \$81,247.34.

893.24/3-2248

The Chinese Embassy to the Department of State

MEMORANDUM

1. The Chinese Government is in urgent need of certain items of armament, spare parts, service tools and materials, and bombs for a number of Mosquito airplanes which it has acquired recently. These items of supply were not available in sufficient quantities at the time when the planes were purchased.

2. It is learned that the United States Government has in its stocks a supply of such items, which are no longer required because the United States does not possess in its service the Mosquito type of planes.

3. There are attached hereto five lists in duplicate containing various items of armament and equipment needed for the said planes. It will be greatly appreciated by the Chinese Government if the United

States Government would declare them surplus and make them available to the Chinese Government through regular surplus channels.

Enclosures: ⁷⁸

1. Armament Equipment required by Mosquito Airplanes
2. 20 MM Cannon Tools
3. 20 MM Links
4. Service Oil & Material
5. Bombs & Fuzes

WASHINGTON, March 22, 1948.

S93.24/3-2248

The Chinese Embassy to the Department of State

AIDE-MÉMOIRE

The War Assets Administration has issued a general notice for the sale by bids of the Oklahoma Ordnance Plant at Pryor, Oklahoma, which has been declared surplus and will be offered for sale by the War Assets Administration.

The Chinese Government would like to purchase this plant for the manufacturing of powders and explosives so as to reduce the purchase of such materials abroad. In view of the limited funds at its disposal, the Chinese Government desires to know if it would be possible to arrange for payments by installments extending over a reasonably short period of time. If such an arrangement for payments should be considered infeasible, the Chinese Government would appreciate a special ruling by the United States Government so as to make it possible for the Chinese Government to purchase at minimum cost and for cash payment a part of the essential equipment of this plant before the general disposal scheduled to be effected on April 1st.

The partial equipment desired consists of the following items:

- a. One line—smokeless powder area
- b. One line—T. N. T. area
- c. One line—Tetryle area
- d. One line—ammonia oxidation plant (AOP) area.

WASHINGTON, March 22, 1948.

S93.24/3-2448

The Chinese Embassy to the Department of State

MEMORANDUM

(1) On January 28, 1948, the Chinese Ambassador, pursuant to instructions of his Government, had the honor to request the Secretary

⁷⁸ None printed.

of State to give favorable consideration to a proposal of military aid for China.

(2) The military situation in China has since assumed greater proportions and is becoming more urgent, and the needs of the Chinese National Army have increased considerably. It is the earnest desire of the Chinese Government that the United States Government would extend to China a grant or credit of US\$150,000,000 for the procurement of ammunition and military equipment preferably from surplus stocks of the United States. If the United States Government would agree to extend such aid, the Chinese Government should like to propose that this grant or credit will be used for a period of twelve months beginning from April 1, 1948, mainly for the following purposes:

a. To procure adequate arms, ammunition and other equipment for the Thirty-nine Divisions originally equipped or to be equipped with American arms, including accessories and items of equipment for communication and signal;

b. To procure aeroplanes, necessary equipment and accessories, together with ammunition, bombs and spare parts to maintain the first-line strength of the 8½ Group Program sufficient for a period of one year; and

c. To pay for packing, inland and ocean transportation, insurance and other expenses incidental thereto.

Detailed programs of procurement will be furnished in due course for the conclusion of an arrangement for the proposed aid fund.

WASHINGTON, March 24, 1948.

893.24/3-2448

*Memorandum of Conversation, by the Secretary of State*⁷⁹

[WASHINGTON,] March 24, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
The Secretary
Mr. W. Walton Butterworth, Director for Far Eastern Affairs

Ambassador Koo called at his request and made reference to the *aide-mémoire*⁸⁰ which he had sent the Department this morning. He said that on instructions from his government he was to renew the request for an arms credit which he had informally broached on January 28, and that in view of the rapidity with which the situation had deteriorated in China, his government believed that the credit should be for \$150 million instead of \$100 million and for a period of one year beginning April 1, 1948. In this connection, he emphasized the

⁷⁹ Drafted by the Director of the Office of Far Eastern Affairs.

⁸⁰ *Supra*.

rapidity with which China's resources were being consumed and the difficulties from a psychological point of view of shipping gold now in China to the United States for sale or hypothecation. In this connection, he mentioned negotiations were now proceeding with the National City Bank for hypothecating certain sums of gold now held in the United States. He also indicated that his government envisaged that programs of military assistance for other governments would decidedly diminish the availability of surpluses for China, and would result in increased purchases by China from American manufacturers at much higher prices. He also mentioned that packing and shipping charges currently ran to between 15 and 17½ percent of the original cost value of surpluses, and that this meant that those charges totaled more than the purchase price under current arrangements.

I reviewed the status of the bills which had been reported out of the Senate and House Foreign Affairs Committees and pointed out that these matters were now for decision by the two legislative bodies. Ambassador Koo asked me whether I supported his government's request and I replied that such a matter was one which I could not properly pass upon alone and, in any case, the issue was out of the hands of the Executive and in active consideration by the Legislative branch of the Government.

893.24/3-2648

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] March 26, 1948.

Mr. Tsui ⁸¹ called at 5:30 p. m. on March 26 by appointment at which time he informed me that his Ambassador had received a telegram signed by both President Chiang and Foreign Minister Wang Shih-chieh to the following effect:

General Thomas, Chief of the Air Branch of the Army Advisory Group, called upon the Generalissimo recently and stated that in view of the serious military situation in Manchuria the United States Government might make available to China twenty C-46 aircraft for immediate delivery in Shanghai or Tsingtao. This offer President Chiang had accepted. Pursuant to this telegram Lt. General P. T. Mow, head of the Chinese Air Force in the United States, called at the Military Assistance Section, Overseas Operations Division, Plans and Operations, Department of the Air Force, and learned that a similar message had been received by that office. It was suggested to General Mow that an official request for these aircraft should be made through the Department of State. Mr. Tsui requested my assistance in expediting the delivery of these aircraft.

⁸¹ T. L. Tsui, Counselor of the Chinese Embassy.

I informed Mr. Tsui that I would discuss this question with the concerned officers in the United States Government in Washington.

A[RTHUR] R. R[INGWALT]

Executive Secretariat Files : NSC 6

Rear Admiral Sidney W. Souers, Executive Secretary to the National Security Council

NSC 6

[WASHINGTON,] March 26, 1948.

THE POSITION OF THE UNITED STATES REGARDING SHORT-TERM
ASSISTANCE TO CHINA

In accordance with a request of the Secretary of Defense, the Department of State is preparing, for consideration by the National Security Council, a report on the position of the United States with respect to China.

Pending the completion of the above-mentioned report, the National Security Council Staff has prepared an interim report on the position of the United States regarding short-term assistance to China, which is enclosed herewith. The enclosure has been prepared with the assistance of representatives of the Departments of State, the Army, the Navy, and the Air Force, and of the National Security Resources Board and the Central Intelligence Agency.

Attention is invited to the divergent views, regarding paragraphs 8-c, 8-d and 9, of the representatives of the Department of State and the National Security Resources Board, and of the representatives of the Departments of the Army, the Navy, and the Air Force.

The enclosed report is submitted for consideration by the National Security Council at its next meeting, tentatively scheduled for 3:00 p. m. on Thursday, April 1, 1948. It is proposed that this report, in the form adopted by the Council, be subsequently submitted to the President for consideration.

SIDNEY W. SOUERS

[Enclosure]

Draft Report of the National Security Council on the Position of the United States Regarding Short-Term Assistance to China

[WASHINGTON,] March 24, 1948.

PROBLEM

1. To assess and appraise the position of the United States regarding short-term assistance to China, taking into account the security interests of the United States.

ANALYSIS

2. The basic long-range objective of the United States in China is the furtherance of a stable, representative government over an independent and unified China which is friendly to the United States and capable of becoming an effective barrier to possible Soviet aggression in the Far East. In view of the chaos in China, however, the most important objective which it is practicable to pursue in the short run is the prevention of complete communist control of China.

3. China is primarily an agricultural country. It has relatively slight industrial plant capacity and is only modestly endowed with the natural resources necessary for heavy industry, in comparison with the U. S., USSR or Western Europe. China's demographic pattern indicates that its enormous population is likely to continue breeding to the limits of subsistence. For the foreseeable future, therefore, China is likely to be poverty-stricken and technologically backward. For the United States and USSR, it possesses politico-military significance because of its (a) geographical position and (b) tremendous manpower. China's propinquity to Southeast Asia means that if the Chinese Communists take over all China, they would in time probably strengthen communist movements in Indochina, Burma, and areas further south.

4. China is torn internally by civil war between the National Government and the Chinese Communists, and is menaced on the north by Russian imperialism. The present trend in China is toward increasing instability and the extension of Communist military and political influence. Without external assistance, for which the United States is the obvious source, the National Government has little prospect of reversing or arresting this trend, because of its declining military strength, the maladministration and corruption prevailing throughout its civil and military structure, its inability to cope with economic deterioration, and its lack of popular support. The principal factor operating in favor of the National Government is the prospect of United States assistance. Any improvement in the position of the Chinese National Government, therefore, requires both substantial internal reforms and foreign assistance.

5. If unchecked, present trends will lead to disintegration of the National Government's authority, decisive military successes for the Chinese Communists, the spread of warlordisms, and the acceleration of tendencies toward separatism and rebellion. Such disintegration would in all probability result in the eventual domination of China by the Communist party. As a last-resort alternative to disintegration the National Government might seek a compromise settlement of its conflict with the Communists. But it is inconceivable that the communists would agree to such a settlement except on terms giving them a dominating position in the government. However, in the case of either disintegration or compromise, it is probable that the acute political and economic disorganization which would result would retard the development of a Communist China as an effective instrument of Soviet policy for some years.

6. Deteriorating economic conditions are steadily weakening the political position of the National Government. In the absence of foreign aid, inflation may quickly lead to a virtually complete collapse of the national currency, thereby producing a political crisis and depriving the National Government of the means of supporting its military forces.

7. In the Chinese civil war the USSR continues to recognize the National Government, and thus far has refrained from giving overt material assistance to the Chinese Communists. It is apparent nevertheless that Soviet sympathies lie with the Chinese Communists, who are in effect an instrument for the extension of Soviet influence. So long as conditions in China continue to deteriorate according to the present pattern, which is favorable to the Chinese Communists, the USSR probably will refrain from open intervention. On the other hand to the extent that US aid tended to reverse the present course of the civil war, the USSR would probably counter by strengthening and encouraging the Chinese Communists.

8. In these circumstances the following possible courses of action are open to the United States:

a. To refrain from furnishing further economic and military assistance.

The adoption of this course would be based upon an assumption that communist expansion in China can be reversed, if at all, only

at a cost greater than the United States can afford to bear. Such a course would in all probability lead to a prompt collapse of the National Government. It is not clear whether such a collapse would mean a slower communist consolidation of power. The advantage of this course is that it would make available aid for areas of greater strategic significance. On the other hand, refusal of further aid would be a reversal of past US policy and contrary to the sentiment in the United States in favor of "helping China".

b. To furnish extensive military and economic assistance in an effort to assist the National Government to defeat the Chinese Communists.

This course of action might eventually make possible a unified non-Communist China as a potential ally of the United States. The military manpower and resources of China would not be opposed to the United States in the event of war, bomber overflight of China would be free from interference by locally based aircraft, a vast area would be provided for escape and evasion tactics, and potential sites would be available for advanced airbases if desired. The announcement of firm support of the National Government by the United States would have a psychological effect which would probably be beneficial to the National Government. On the other hand, the United States would be committed to a policy involving the absorption of its resources to an unpredictable extent, once it assumed such direct responsibility for the Nationalist side of the civil war and for the Chinese economy. In view of the strong position of the Chinese Communists, the United States, in order to make this course of action effective, would have to be prepared virtually to take over the Chinese government and administer its economic, political and governmental affairs. It would be impossible to estimate the final cost of a course of action of this magnitude, which would be a continuing commitment from which it would be practically impossible to withdraw. Moreover, large-scale US assistance to the National Government would probably result in large-scale Soviet assistance to the Chinese Communists. In the resultant mounting spiral of support and counter-support, the advantage would be with the USSR, because of its favorable geographical position and the vitality of the Chinese Communist movement. Such a development might lead to a Spanish-type revolution or to general hostilities.

c. To furnish limited aid to China in the form of both military and economic assistance.

State Dept. Member of the NSC Staff, concurred in by the National Security Resources Board Member of the NSC Staff

This course of action would be in the nature of buying time in China. It would not insure the defeat of the Communists nor is it likely, in the absence of resolute self-help on the part of the National Government, even to reverse the present trend of communist advance. But it might retard communist progress, enabling the National Army to continue the fight for some time to come and thereby provide the National Government with a new opportunity to attempt a stabilization of the internal situation. It would restrict the initial drain on US resources. But as it became evident that such aid was inadequate to check the communists, the limited military aid given could be represented as an obligation necessitating further military, as well as economic, commitments to China. This process could continue indefinitely and lead to deeper and deeper involvement of our national strength in an area of, at best, secondary strategic importance to us. At this critical juncture the United States Government cannot afford thus to compromise its freedom of decision and action based upon considerations of its own vital interests.

Army, Navy, and Air Force Members of the NSC Staff

This course of action would be in the nature of buying time in China. Without immediate military assistance it is estimated that the Communists can completely consolidate their hold on Manchuria and extend their operations south of the Great Wall. Limited military aid would not insure the defeat of the Communists but would enable the National Army to continue the fight for some time thereby providing the National Government with a further opportunity to stabilize the internal situation. It might enable the National Army progressively to consolidate the control of the National Government over areas south of the Great Wall. The funds devoted to economic aid would be a much better investment in the advancement of China's economic stability if expended under reasonably stable military conditions. Such a course of action would limit the drain on United States resources, would avoid a complete underwriting of the National Government, and would not irrevocably commit the United States to further assistance.

d. To furnish limited economic assistance to China.

State Dept. Member of the NSC Staff, Concurred in by the National Security Resources Board Member of the NSC Staff

Under this course of action, US military and naval missions would remain in China, but the United States Government would not directly provide military supplies. This course, in common with *c* above, would limit the drain on US resources and avoid a complete underwriting of the National Government. In addition, it would avoid a reaffirmation of US obligations to supply military equipment leading to renewed demands for still more military aid. This policy, nevertheless, would make it possible for the Chinese Government to acquire military equipment from US surplus and through commercial channels in the US and other countries, but in smaller quantities than under *c* above. The military responsibility for the survival of the National Government would be clearly placed upon Chinese shoulders.

Army, Navy, and Air Force Members of the NSC Staff

Under this course of action, US military and naval missions would remain in China, but the United States Government would not directly provide military supplies. However, the effectiveness of the US military and naval missions would be at a minimum. This course, in common with *c* above, would limit the drain on US resources and avoid a complete underwriting of the National Government. In addition, it would avoid a reaffirmation of US obligations to supply more military aid. Theoretically, this policy would make it possible for the Chinese Government to acquire military equipment from the US surplus and through commercial channels in the United States and other countries in smaller quantities than under *c* above and after much greater delay. The military responsibility for the survival of the National Government would be clearly placed upon Chinese shoulders. It is questionable that the National Government is capable of adequately discharging its responsibilities to supply its armies. The danger in such a course is the increased possibility that the Nationalist armies might be driven from the field. Such an event leading toward communist control of China would be highly unfavorable to US prestige and interests.

CONCLUSIONS

State Dept. Member of the NSC Staff, Concurred in by the National Security Resources Board Member of the NSC Staff

9. The United States should furnish only limited economic assistance to the National Government of China on a scale designed to (a) retard economic deterioration, and (b) provide that Government with an opportunity to acquire limited military supplies with its own resources.

10. The United States assistance program in China should be regarded as subordinate to the efforts to stabilize conditions in areas of more strategic importance.

Army, Navy, and Air Force Members of the NSC Staff

9. The United States should furnish limited economic and military assistance to the National Government of China on a scale sufficient to retard economic and military deterioration and provide that Government with an opportunity to stabilize its internal political and military situation.

893.248/3-2748

The Chief of the Division of Chinese Affairs (Ringwalt) to the Counselor of the Chinese Embassy (Tsui)

WASHINGTON, March 31, 1948.

MY DEAR MR. TSUI: Reference is made to the conversation which took place in my office on March 26, 1948 during which you requested assistance in the implementation of an offer made by a member of the Army Advisory Group at Nanking for the immediate transfer to the Chinese Government of about twenty C-46 aircraft.

I have discussed this matter with the concerned officers of the United States Government in Washington and I now take pleasure in informing you that agreement has been reached for the transfer of sixteen to twenty excess C-46 aircraft to China under the 8 $\frac{1}{3}$ Group Program. It should be noted, however, that the unfulfilled requirement of this type of aircraft under the Program is only three aircraft, and that the remaining thirteen to seventeen aircraft are furnished to replace those already transferred but reported to be unserviceable at the time of transfer. In arranging for the transfer of the additional thirteen to seventeen aircraft under the 8 $\frac{1}{3}$ Group Program it should be understood that this action is not to be considered:

- a. A precedent or commitment to furnish any aircraft or spare parts in addition to those required to complete the Program.
- b. A precedent to deliver items surplus in one area to another area more convenient to the purchaser.
- c. An acceptance by the United States of the Chinese contention that many of the aircraft already transferred were unserviceable at the time of transfer.

Sincerely yours,

ARTHUR R. RINGWALT

893.00/4-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 2, 1948—5 p. m.

479. Emb has doubtless seen ComNavWesPac's Top Secret 290855Z 29 Mar 1948 commenting on CinCfe's 261001Z⁸² regarding direct supply of munitions to Nationalist forces.

Dept strongly endorses ComNavWesPac's advice to Emb as outlined in reftel and it likewise remains unconvinced that transport and delivery of available ammunition is beyond Chinese capabilities and recognizes that use of US aircraft in such activity would be tantamount to direct involvement in hostilities. For Emb's information no consideration is being given or even contemplated by Dept to reversal of present policy of avoiding direct participation in Chinese civil war.

LOVETT

893.00/4-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 3, 1948—3 p. m.

[Received April 3—4: 12 a. m.]

602. Embassy has had nothing to do with subject Deptel 479, April 2, 5 p. m. ComNavWesPac's Top Secret 290855Z, 29 March 1948 commenting on CinCFE's 261001Z regarding direct supply of munitions to Nationalist Forces was seen by us. It was message commenting on one from Department of Army to General Barr which was repeated to CinCFE which in turn repeated it to ComNavWesPac. Army message to Barr which was shown to us appeared to us one involving precautionary planning in case Army was asked by Congressional Committee whether additional military aid might be possible. We did not seek, nor have we received advice from

⁸² Neither found in Department files.

ComNavWesPac on subject. We have taken no action in respect thereof.

STUART

893.24/4-648

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, 6 April 1948.

DEAR MR. SECRETARY: The study referred to in my letter dated 15 March 1948⁸⁴ has been completed. The amount of supplies transferred may vary from the quantity reported due to the fact that all surpluses available for transfer are subject to the terms of either Foreign Liquidation Commissioner or the Field Commissioner for Military Programs contracts and Chinese acceptance. The computation, Tab "A",⁸⁵ compares the Chinese requirements as set forth in the memorandum inclosed in Mr. Lovett's letter dated 31 December 1947⁸⁶ with the availability of matériel.

Particular emphasis has been placed on ammunition requirements by listing them in detail. Transfer of these items has been expedited.

Due to the nature of this transaction and the widespread location of the supplies, the Department of the Army is unable to maintain an up-to-the-minute status report on all items. These figures will, however, indicate the approximate magnitude of this assistance.

Quantities greater than indicated in the tabulations are not surplus to the Department of the Army needs and cannot, therefore, be made available under the Surplus Property Act. Only by statutory authority and appropriation can they be fulfilled.⁸⁷

Sincerely yours,

KENNETH C. ROYALL

893.50 Recovery/4-748 : Telegram

*The Secretary of State to the Acting Secretary of State*⁸⁸

BOGOTÁ, April 7, 1948—11 p. m.

[Received April 7—3:47 p. m.]

MARTEL 28. Reference the draft report to the National Security Council dated March 26 [24] on "The position of the United States

⁸⁴ Missing from Department files.

⁸⁵ Not printed; it gave detailed lists of various types of surplus material on Saipan and in Hawaii moved by Chinese or applicable against requests for assistance.

⁸⁶ *Foreign Relations*, 1947, vol. VII, p. 938.

⁸⁷ The lists enclosed with this letter were transmitted to the Chinese Embassy on April 21 with the statement that the amount of supplies eventually available might vary somewhat from the figures listed (893.24/12-2347).

⁸⁸ The Secretary of State was attending the Ninth International Conference of American States at Bogotá.

regarding short-term assistance to China", I favor the stand of the State Department and NSRB members. I consider the military view indefinite as to what is meant by "limited military aid". Apparently the adoption of such policy would inevitably involve us in the drain referred to in the opposite statement of view.

However, I do think there is a possibility for the Naval Mission to give more direct assistance than at present, by personally supervising command and operating procedures on ships and smaller craft. This could probably be done without the multitude of involvements flowing from intimate relationships with command in field forces engaged in active operations.

It is my view that there are many things the Military Missions can do, such as the example I have just cited which would be in the form of limited military assistance but would not involve us in the dangers listed in the subject paper.

Paragraph 8, (d) as submitted by the State Department and NSRB members is a succinct statement of my position. I should think that before further discussions with the defense establishment are conducted, they should be asked to define clearly, specifically and within reasonable limits, exactly what they mean on a logistical and manpower basis by "limited military assistance."

MARSHALL

893.50 Recovery/4-948 : Telegram

The Secretary of State to the Acting Secretary of State

Bogotá, April 9, 1948—11 a. m.

[Received—12:48 p. m.]

MARTEL 36. I assume passage of ERP⁸⁹ with China assistance is the event which overtook the NSC paper. This should not preclude consideration by defense establishment of views contained in my MARTEL 28.

MARSHALL

893.248/4-1248

The Chinese Embassy to the Department of State

MEMORANDUM

1. According to the United States authorities concerned, the 8½ Group Program for the Chinese Air Force provides for 1,071 airplanes of various types, and prior to the suspension of the Program

⁸⁹ European Recovery Program.

about two years ago 936 airplanes had been delivered to China, leaving in the books a balance of 135 planes, which upon delivery will complete the Program insofar as airplanes are concerned.

2. It is to be observed, however, that of the 936 planes turned over to China under the Program, 158 were not in serviceable condition at the time of delivery, and 222 planes were made available to China under Lend-Lease arrangements, which by V-J Day had seen a great deal of service and were already worn out. Reference is also made to the fact that, on account of the suspension of the Program, all available planes in China have been put to excessive use and many of them on hand have been worn out and are beyond repair. As a result, the strength of the Chinese Air Force has been reduced to a critically low point. The Chinese Government requests, therefore, that, in view of the aforementioned reasons and the fact that the main objective of the Program is to maintain 556 front-line planes, a total of 515 planes be made available to China at the earliest practical date in order to consummate the Program.

3. The planes required to fulfill the inventory figures of the Program are as follows:

	<i>P-51</i>	<i>P-47</i>	<i>B-25</i>	<i>B-24</i>	<i>F-5</i>	<i>C-46</i>	<i>Total</i>
a. Planes not yet delivered.	53	42	0	37	0	3	135
b. Planes received but unserviceable.	63	27	13	0	6	49	158
c. Lend-Lease planes to be replaced.	120	0	50	37	15	0	222
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total number of planes required under Program.	236	69	63	74	21	52	515

Since 150 C-46 planes were bought by the Chinese Government from the War Assets Administration in November, 1947, and some 16 similar planes are being delivered to China from the Pacific area under arrangements recently entered into, there is no further need of such type of planes as originally provided for under the Program. It is desired that the 52 planes of the C-46 type be replaced by the same number of fighters or light bombers. As regards the 74 B-24's, it may be mentioned that such planes or similar heavy bombers are of no practical use to the Chinese Air Force as the present type of operations does not call for such planes. They may be replaced by fighters such as the P-51's or P-47's or light bombers such as the B-25's or A-26's. The Chinese Embassy is gratified to note that the Department of State had promised on February 26th that it would undertake to explore all the possibilities of substituting the same number of fighters for the 37 B-24's as a part of the book balance of 135, leaving

for further consideration at a later date the question as to the total number of planes to be made available to China under the Program after pertinent records would have been consulted.

4. As it will be recalled, officials of the Department and the Office of the Foreign Liquidation Commissioner had in February informed the Chinese Embassy and a representative of the Chinese Air Force in Washington that 95 fighter planes would be made available to China. These planes, however, will have to be reconditioned, flight-tested, dismantled, crated and then shipped to China. It is learned that the process may take eight months after the planes will have been allocated and not counting the time required for shipment. As such planes are urgently needed, the Chinese Embassy has had occasions to request the Department that the United States authorities would undertake to allocate to China from the United States Air Command in the Pacific 95 fighter planes or whatever number available, which will be replaced in due course by planes to be assigned to China under the Program. The Chinese Embassy wishes to reiterate its request that a maximum number of fighter planes under the Program be made available to China from the Pacific at the earliest possible date.

5. As to the remaining planes, it is suggested for the favorable consideration of the United States authorities that small aircraft carriers be used to transport them, without disassembling or crating, across the Pacific immediately after they will have been flight-tested. In the event of technical difficulties which may arise in connection with the landing of planes from United States carriers at Chinese aerodromes, the planes may be unloaded on an island under the control of the United States authorities sufficiently near to the Chinese coast so that they can be ferried to China under their own power by Chinese pilots.

6. On account of the urgent military situation in China, the Chinese Air Force is in pressing need of the undelivered ammunition, spare parts, and spare engines under the Program. It will be highly appreciated if this ammunition and equipment will be released to China at the earliest practical date.

WASHINGTON, April 12, 1948.

893.50 Recovery/4-948 : Telegram

The Acting Secretary of State to the Secretary of State, at Bogotá

WASHINGTON, April 15, 1948—noon.

TELMAR 66. With reference to the last para of MARTEL 28 of Apr 7 and to MARTEL 36 of Apr 9, FE and S/P⁹⁰ are of the opinion that it would be unwise at this time to reopen the question of so-called short-

⁹⁰ Office of Far Eastern Affairs and Policy Planning Staff, respectively.

term assistance to China, since the National Security Council has postponed indefinitely its consideration of the problem.⁹¹

Unless you wish to press the Defense Establishment for clarification immediately, Dept proposes to defer seeking suggested clarifications until it is prepared to present basic paper on our position regarding China on which it is now working.

LOVETT

893.24/4-1648

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] April 16, 1948.

Dr. Tan called by appointment at 5:00 p. m. to discuss the general problem of Chinese military requirements.

Dr. Tan stated that his Embassy had just received a communication from Nanking setting forth the urgent need of the Chinese armed services for 20,000,000 rounds of .30 caliber carbine ammunition for immediate delivery to China. He inquired to what extent this type of ammunition could be met from ammunition surplus to the needs of the United States armed forces. In this general connection he asked whether this Department was now able to give him the promised information in regard to availability of surplus ammunition from Hawaii and the Pacific.

I informed Dr. Tan that we had just received a detailed statement of availabilities of surplus ammunition from the sources mentioned but that unfortunately the Department of the Army had indicated that a section of the list should be treated as classified information. I said that we had requested the Department of the Army to supply us with an unclassified list which we could transmit in its entirety to the Chinese Embassy and that pending the receipt of this unclassified list I saw no reason why I could not indicate to him informally the nature of the ammunition which might be made available for transfer in substantial amounts. Dr. Tan agreed that the information which I was able to pass on to him in this manner coincided in general with information already obtained by him through FLC, and that it appeared that only about 500,000 rounds of .30 caliber ammunition could be made available from surplus.

Dr. Tan had inquired whether it would be possible to make a further survey to ascertain whether additional surplus ammunition could be discovered. I stated that I would inquire of the concerned officers in

⁹¹ At a meeting on April 2 the National Security Council agreed that NSC6 had been overtaken by events and deferred further action on the subject of China pending receipt of a position paper from the Department of State.

the Department of the Army but that it was my impression that the list to be submitted would include all available surplus ammunition except that located in the Ryukyus. I said that I had learned from FLC sources that a representative of Bosey had made an informal inspection of the surplus ammunition on Okinawa and had discovered that a substantial portion of this ammunition was either un-serviceable or of a type not used by the Chinese armies. It seems that this representative had requested authority to make a selection from this surplus rather than to accept it in its entirety on a where-is-as-is basis. I suggested to Dr. Tan that in view of the nominal price at which this ammunition was to be offered, that is to say, one cent on a dollar, I doubted whether the Army or FLC would be willing to agree to the request of the representative of Bosey. I pointed out that the United States Army personnel on Okinawa had been so reduced that it would be quite impracticable for the Army authorities concerned to undertake to process this ammunition.

With respect to the seventeen C-46s which were being declared surplus by SCAP for transfer to China, I informed Dr. Tan that notwithstanding my previous statement to the contrary it had proven possible to have American pilots deliver these planes to Shanghai. I asked Dr. Tan to regard this concession on our part as entirely confidential.

893.24/4-1348

The Acting Secretary of State to the Chinese Ambassador (Koo)

The Acting Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Embassy's note of March 24, 1948,⁹² requesting that arrangements be made for the use of a naval dock in Pearl Harbor for the loading of surplus ammunition purchased by the Chinese Government in Hawaii. A copy of the Embassy's note was forwarded by this Department to the naval authorities concerned for appropriate consideration.

A communication has now been received from the Navy Department⁹² stating that the facilities requested will be made available subject to the following provisions:

- (a) That the facilities be used between 15 May and 15 July 1948.
- (b) That no extra expense be incurred by the Department of the Navy for loading the surplus ammunition.
- (c) That the Commanding Officer, U. S. Naval Ammunition Depot, Oahu have complete supervision over the loading, procedures and safety measures to be followed.

⁹² Missing from Department files.

(d) That contract stevedores rather than civil service stevedores be employed to load commercial ships used by the Chinese to transport the ammunition.

(e) That the responsibility of the U. S. Navy for loading of the vessels not commence until the ammunition has been delivered and unloaded at the pier.

If the Chinese Government desires the use of the facilities in question under the terms indicated above it is requested that this Department be so informed in order that the necessary arrangements may be made for the loading of the ammunition.⁹³

WASHINGTON, April 20, 1948.

893.24/4-2248

The Chinese Embassy to the Department of State

MEMORANDUM

1. In the Memorandum of the Chinese Embassy to the State Department dated November 4, 1947,⁹⁴ there was enclosed a list of ammunition and items of equipment urgently needed by the Chinese Air Force. Attached hereto is a supplementary list of ammunition, bombs and rockets comprising 17 items intended for the use of the Air Force.

2. Some of these items have already been enumerated in the list of November 4th, but have not as yet been declared available for transfer, while the others are provided for and required under the 8 $\frac{1}{3}$ Group Program. It is to be noted, however, that the quantities indicated under the "requirements" column of the list are smaller than the respective figures indicated in the list of November 4th. This is due to the fact that they only cover the urgent requirements after deducting the quantities delivered and already declared available for transfer to China in the Pacific and those procured by China from the United States Government on a loan basis as in the case of the M .50 cartridges.

3. It will be greatly appreciated if the United States Government would cause this list to be studied in conjunction with that of November 4th and make available to China the several items of munitions and equipment for the Chinese Air Force contained therein at the earliest practicable date.

WASHINGTON, April 22, 1948.

⁹³ The Chinese Embassy indicated by a note of April 28 that the Chinese Government desired these facilities. By later agreement use of these facilities was extended to August 15.

⁹⁴ *Foreign Relations*, 1947 vol. VII, p. 913.

[Annex]

AMMUNITION REQUIREMENTS BY THE CHINESE AIR FORCE

<i>Item</i>	<i>Description</i>	<i>Requirements</i>
1.	M2 .50 Caliber A. C. MLB	21, 877, 250
2.	.50 Caliber G. F.	3, 009, 070
3.	.30 Caliber (For Carbine)	2, 199, 700
4.	.30 Caliber	1, 901, 000
5.	.45 Caliber	5, 306, 375
6.	Para. Cluster Practice	20, 000
7.	M39, M45 Signal A. C.	12, 500
8.	M26 Flare Bomb 53-lbs.	5, 625
9.	Photo Flare	2, 500
10.	M 38 A2 100# Practice Bomb	153, 200
11.	M47 A2 100# Incendiary Bomb	11, 805
12.	AM-M30 100# Bomb	3, 024
13.	M82 100# Frag. Bomb	15, 214
14.	M81 260# Frag. Bomb	4, 049
15.	AN-M65 1000# Bomb	376
16.	2.25'' Rocket	135, 360
17.	5'' Rocket	8, 064

893.24/4-2248

The Chinese Embassy to the Department of State

MEMORANDUM

1. The Chinese Embassy refers to the Memorandum of the Department of State dated March 4, 1948, transmitting four Lists ^{94a} indicative of the types and quantities of ammunition in Hawaii and in the Marianas available for purchase by the Chinese Government through surplus channels, and desires to inform the Department that the contents of the said List had been duly communicated to the Chinese Government, certain agreements had been executed and a portion of the ammunition in Saipan had already arrived in China.

2. As the military situation in China is becoming more urgent and is assuming greater proportion, specially in the Northeast and the Northern provinces of the country, the need for the ammunitions and items of military supplies indicated in the Lists attached to the Memoranda of the Embassy to the Department dated November 4th and December 23, 1947,⁹⁵ has become increasingly pressing. The requirement for cartridges of .30, .45, and .50 calibers is particularly

^{94a} None printed.⁹⁵ *Foreign Relations*, 1947, vol. VII, pp. 913 and 934, respectively.

acute in view of the fact that the Chinese Army divisions armed with the American type of equipment are running out of ammunition. According to the four Lists of the Department referred to above, the total numbers of cartridges of these three calibers made available to China are 25,456,700 rounds, 1,000,000 rounds, and 3,540,600 rounds respectively, much falling short of the actual requirements of the Chinese Government as indicated in the Lists attached to the aforementioned Memoranda of the Embassy. Of the total number of cartridges of the .30 caliber, there are only 52,500 rounds suitable for carbines. On account of the weather conditions in the Pacific islands in which the ammunition has been stored, some of the cartridges are expected to be unusable or unsteady.

3. In the light of these facts and the exigency obtaining in China, the Chinese Government requests earnestly that the United States Government would undertake to make available to China through surplus channels 30,000,000 rounds of .30 caliber ammunition for carbines. In the List attached to the Memorandum of the Embassy dated December 23, 1947, mention was made of the requirements of the Chinese Government for the different types of ammunition of such caliber with indications as to their priorities. A comparison of the figures shown in the said List will reveal that 30,000,000 rounds represent only a part of the requirements. It will be greatly appreciated if the United States authorities would accord this request their favorable consideration and make such cartridges available to the Chinese Government at the earliest practicable date.

WASHINGTON, April 22, 1948.

893.24/4-1048

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State refers to the *aide-mémoire* from the Chinese Embassy dated March 22, 1948 expressing the interest of the Chinese Government in purchasing certain equipment of the Oklahoma Ordnance Plant at Pryor, Oklahoma. A copy of this *aide-mémoire* was forwarded by the Department to the War Assets Administration for its consideration.

A reply has now been received from the War Assets Administration ⁹⁶ stating that on March 18, 1948 this plant was placed under the

⁹⁶ Not printed.

full restrictions of the National Security Clause, under which it may be disposed of only for use in its present location. For the present, therefore, this Government is not in a position to act favorably on the request of the Chinese Government for special consideration in the purchase of the desired equipment.

WASHINGTON, April 28, 1948.

893.23/5-448

The Chinese Minister (Tan) to the Chief of the Division of Chinese Affairs (Ringwalt)

WASHINGTON, May 4, 1948.

DEAR MR. RINGWALT: Referring to your conversation with me a few days ago in which you were kind enough to inform me that according to the judgment of certain officers in the Department of the Army the 20 mm. cannons are not suitable for the Mosquito type of aircraft, I take pleasure to inform you that according to the information from the Office of the Chinese Air Force in the USA such cannons are suitable for the said type of aircraft and some of the Mosquito planes in the service of the Chinese Air Force are mounted with them. The pertinent portion of the memorandum from that office to the Embassy on this matter reads as follows:

May we emphasize that if the type of 22 mm. cannons which the United States Government can make available to us is exactly the same as listed in our memorandum [i. e., Memorandum of the Embassy to the Department dated March 22nd with enclosed Lists],⁹⁷ we do not think any accidents will occur, unless there are faulty parts in them.

We are very thankful for the warning from experts of the United States Army Department, and we shall appreciate it if they would point out to us whether the cannons have any inherent defects to which attention should be called.

I should like to take this opportunity to state that such cannons together with the other items of equipment as indicated in the Lists attached to the Memorandum of the Embassy of March 22nd are urgently needed, and it will be greatly appreciated if they, particularly the cannons in question, would be made available to us at the earliest possible date.

Very sincerely yours,

SHAO-HWA TAN

⁹⁷ Brackets appear in the original.

893.50 Recovery/5-448

*Memorandum of Conversation, by the Chief of the Division of
Chinese Affairs (Ringwalt)*

[WASHINGTON,] May 4, 1948.

Participants: Dr. Shao-Hwa Tan, Chinese Minister
Mr. Butterworth, FE
Mr. Ringwalt, CA

Dr. Tan called at three o'clock this afternoon by appointment with Mr. Butterworth. He opened the conversation by stating that, the exchange of notes⁹⁸ having taken place, his Government was now giving attention to the appropriate utilization of the credits to be made available to it under the China Aid Act. He stated that his Government was planning to spend the entire \$125,000,000 for military supplies⁹⁹ and that it was working out a balanced program for the procurement of such supplies. Indications were that the larger portion of this amount would be expended for the purchase of supplies for the Army, a smaller portion for the Air Force and a still smaller amount for the Navy. The problem immediately confronting his Government, said Dr. Tan, was the proper utilization of the 13.5 million-dollar portion of the \$50,000,000 to be advanced by RFC.¹

Dr. Tan referred to previous discussions in regard to the urgent need for 30-caliber ammunition for use in carbines. He said that according to the lists which this Department had supplied his Embassy there were about 30,000,000 rounds of small arms ammunition of various categories of which, however, only 52,000 rounds were carbine ammunition. He asked whether, in view of the urgent need for such ammunition, further search might be made with a view to uncovering more ammunition of this type for sale as surplus.

Dr. Tan also referred to the 81 $\frac{1}{3}$ Group Program and reiterated his previous request that if possible aircraft for this Program be made available from Pacific sources to be replaced by similar aircraft from the Zone of the Interior. He also again asked whether fighter aircraft could be substituted for bombers under the Program and whether this Government would recognize China's claim for a larger number of aircraft than the 135 held by the United States Air Force to be the amount still due under the Program.

Mr. Butterworth stated that the various problems with regard to surplus ammunition and the 81 $\frac{1}{3}$ Group Program, mentioned by Dr.

⁹⁸ Exchange of notes between the Secretary of State and the Chinese Ambassador on April 30 regarding the China Aid Program; Department of State Bulletin, May 16, 1948, p. 647.

⁹⁹ For further correspondence on this subject, see pp. 73 ff.

¹ Reconstruction Finance Corporation.

Tan, had already been referred to the Department of the Army and the Air Force respectively. He pointed out that, although this Department would be more than pleased if the Army could declare 30,000,000 rounds of carbine ammunition or even a larger amount as surplus, it had no authority whatsoever in connection with surplus declarations. He recalled that as far back as last December this Department had already asked the Army for a complete statement of surplus ammunition available for transfer to China and that lists of such ammunition had already been given the Chinese Embassy. With regard to the number of aircraft still due under the 8 $\frac{1}{3}$ Group Program Mr. Butterworth reiterated his previous position that this was a technical matter for the concerned officers of the Chinese and the United States Air Forces to work out.

A[RTHUR] R. R[INGWALT]

893.24/3-2248

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State refers to the memorandum from the Chinese Embassy dated March 22, 1948 with regard to the interest of the Chinese Government in acquiring certain items of equipment for Mosquito airplanes and to the Department's interim reply contained in its memorandum of April 15, 1948,² stating that the Department of the Air Force was engaged in an investigation to determine the availability of the items desired.

There is now transmitted herewith a list ³ supplied by the Department of the Air Force which indicates the status of availability in Air Force stocks of this equipment. The items shown as available may be obtained through the Office of the Foreign Liquidation Commissioner.

In the letter ² transmitting the above-mentioned list the Department of the Air Force commented as follows:

"The United States Air Force has never used the British designed 'Mosquito' aircraft for other than photographic work. These USAF aircraft did not mount 20 mm guns. Since specific information as to the serial and mark numbers of the aircraft are not available to the Air Force, it is impossible to determine whether the specific gun requested by the Chinese can be installed, without modification of the aircraft. In this connection, it is suggested that the representatives of the Chinese Government contact appropriate Canadian or

² Not printed.

³ List not found in Department files.

British authorities, if they have any doubt as to the suitability of installation of the desired 20 mm cannon. If such an action is undertaken by the Chinese representatives, they should furnish the following information to the appropriate authorities: serial number of aircraft, mark number of aircraft and detailed data as to the mounting and feeding of the gun which they desire to install in their Mosquito aircraft."

WASHINGTON, May 7, 1948.

893.24/5-1848

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to refer to the Memorandum of the Department of May 7, 1948, transmitting a List from the Department of the Air Force which indicates the status of availability in the stocks of the United States Air Force of items of equipment for Mosquito aircraft.

The Ambassador will appreciate it if the Secretary would be good enough to inform the Department of the Air Force and the Office of the Foreign Liquidation Commissioner that the Chinese Government desires to acquire all the items shown in the List as available and that a representative of the Washington Office of the Chinese Air Force will contact the Commissioner for this purpose.

The Ambassador wishes to take this opportunity to thank the Department of the Air Force for its valuable suggestion as regards the suitability of the desired 20 mm guns for the Mosquito aircraft.

WASHINGTON, May 18, 1948.

893.248/5-2048

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to refer to the Memorandum of the Embassy to the Department dated April 12, 1948, transmitting the request of the Chinese Government for the implementation of the 8½ Group Program for the Chinese Air Force.

The Ambassador wishes to inform the Secretary that the Chinese Government is urgently in need of the various types of aircraft as indicated in the said Memorandum and will deeply appreciate it if the United States Government would find it feasible to make them available to China, together with the undelivered ammunition, spare

parts and spare engines under the Program, at the earliest practicable date.

It is sincerely hoped that the Secretary would, in conjunction with the other departments concerned, give favorable consideration to the request of the Chinese Government as conveyed in the said Memorandum and would make arrangements to have the fighter planes delivered to China at a base in the Pacific under the control of the United States authorities.

WASHINGTON, May 20, 1948.

893.248/5-2448

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 24 May 1948.

DEAR MR. SECRETARY: I refer to your communication of 20 April 1948⁴ and attached copy of a memorandum of 12 April 1948 from the Chinese Embassy in Washington, containing an urgent request for military equipment and especially aircraft for the Chinese Nationalist Forces.

The Secretary of the Air Force has indicated that it would be necessary to refer to the Joint Chiefs of Staff the problem of transfer to the Chinese Government of aircraft from United States units in the Pacific. The heavy load of higher priority work precludes the mechanical rehabilitation of the 95 fighter aircraft presently on contract for turn-over to the Government of China by USAF depots prior to late Spring 1949. Rehabilitation of the 95 aircraft by a civilian firm would require a minimum of 22 weeks plus time required for movement of the aircraft from the United States to China by surface vessel. It is not anticipated that either of the above mentioned approaches will meet the urgency of the deteriorating military situation in China. Even if the Chinese Government accepts rehabilitation of the 95 aircraft by a civilian firm, it is anticipated that they will request that aircraft in addition to the 95 be made available to achieve the urgently needed revitalization of the Chinese Air Force. The degree of urgency could only be met by making such aircraft available from Pacific units.

In view of the above it is requested that the Department of State advise me upon the degree of U. S. national interest involved in order that I may decide whether there is a question of military priority which should be referred to the Joint Chiefs of Staff.

Sincerely yours,

JAMES FORRESTAL

⁴Not printed.

893.24/5-1448

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State refers to the Chinese Embassy's two memoranda of April 22, 1948 with regard to the requirements of the Chinese Government for arms and ammunition for the Chinese Army and for the Chinese Air Force, copies of which were forwarded by the Department to the military authorities concerned.

A communication has now been received from the Department of the Army⁵ indicating that its report, "Status of Surplus Matériel in Pacific Area as Pertains to Chinese Government",⁶ forwarded to the Chinese Embassy as an attachment to the Department's memorandum of April 21, 1948,⁷ contained the latest information on the amount of surplus matériel available for transfer to the Chinese Government. It is understood that contracts for the purchase of this matériel by the Chinese Government are now under negotiation.

The Department will inform the Chinese Embassy should the military authorities indicate that additional surplus matériel has become available for transfer to China.

WASHINGTON, May 28, 1948.

893.24/6-948

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] June 9, 1948.

On December 22, 1947 the Chinese Government purchased 150 C-46's from the War Assets Administration. As of June 7, 36 of these had been flown to Shanghai and the balance were arriving there at the rate of 10 per week. If present schedules are maintained all the planes will have been delivered by the end of August.

In late April CinCFE declared 13 C-46's surplus and these were sold to the Chinese Government at a cost of \$22,500 each under a contract concluded on May 12. In view of the urgent need of the Chinese Government for these planes and in view of the fact that they are transport and not combat planes, arrangements have been effected whereby United States flight personnel are now delivering them to Shanghai. The Department agreed to the delivery of these planes

⁵ Not printed.

⁶ See footnote 85, p. 52.

⁷ See footnote 87, p. 52.

at Shanghai by U. S. personnel on the basis that not more than 3 would be delivered at a time and that there should be no publicity in regard to such action. It was stipulated that U. S. markings would be obliterated prior to the transfer of these planes to the Chinese.

W. W[ALTON] B[UTTERWORTH]

893.248/5-2448

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, June 10, 1948.

DEAR MR. SECRETARY: The receipt is acknowledged of your letter of May 24, 1948 with regard to the request of the Chinese Government for military equipment for the Chinese Air Force.

The Under Secretary of State subsequent to June 20, 1947 approved for Departmental guidance a statement of policy with respect to the relative priorities for the receipt of U. S. military supplies. This decision was embodied in Policy Decision no. 11 of the Policy Committee on Arms and Armaments, of August 20, 1947,⁸ copies of which were transmitted by the Deputy Chairman of the Committee to the Army and Air Force members of the SANAC⁹ subcommittee on rearmament. By this decision three priority groups were established, though no attempt was made to establish a relative priority among the countries within any respective group. Group I comprised Greece and Turkey; Group II comprised Italy, Iran and China (8½ Group Program only—including civilian end-use items, transport planes and spare parts only for all equipment transferred to China under this Program); Group III comprised Canada, the Republic of the Philippines, and the American Republics.

It is understood that a new study is now being made by the concerned Departments to determine the priority of various countries for the receipt of military aid. Pending the outcome of this study, it is the opinion of the Department that the furnishing of all types of equipment for the 8½ Group Program should carry the priority indicated in the categories enumerated above and that any project sponsored by the Government to assist the National Government of China in maintaining an air force commensurate with her other armed forces and suitable to her present needs should be considered as maintaining a similar priority.

This Department has been informed that in addition to the 95 fighter aircraft in this country referred to in your letter under

⁸ Not printed.

⁹ State-Army-Navy-Air Force Coordinating.

acknowledgment, arrangements are now being completed for the transfer to China of 166 fighter aircraft from Pacific sources. It is understood that these aircraft will be turned over to the Chinese Government at Okinawa in combat operational condition.

Faithfully yours,

G. C. MARSHALL

893.248/6-1448

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 14 June 1948.

DEAR MR. SECRETARY: Thank you for your letter of 10 June 1948 which was in response to my earlier communication of 24 May 1948 dealing with the request of the Chinese Government for military equipment for the Chinese Air Force.

It will be extremely helpful to have your statement concerning the priority to be accorded to the 8½ group program pending completion of the current study with respect to priorities in the furnishing of military aid. I shall immediately transmit a copy of your letter to the Secretary of the Air Force so that the request of the Chinese Government may be considered in the light of your advice.

Sincerely yours,

JAMES FORRESTAL

893.24/6-2148

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State has been informed by the Department of the Air Force that a number of P-47-N fighter aircraft now located in the Pacific will, during the remainder of the year, become surplus to United States Air Force requirements. The United States Government is prepared to make these planes available to the Chinese Government through the Office of the Foreign Liquidation Commissioner.

Present information, which can not be considered as final, indicates that thirty-two of these aircraft will be available for sale or transfer shortly after the middle of July with additional aircraft becoming available approximately as follows: Thirty-two in August; nineteen in September; seven in December. It is anticipated that about one-third of these aircraft will be P-47 N-RE-1's and the remaining two-thirds will be P-47-N-RE-5's.

The Department of the Air Force has indicated that the number of planes involved is subject to change and that the schedule of deliveries is contingent upon several variable factors. Therefore, this memorandum should not be considered as establishing a commitment

on the part of this Government to furnish the total number indicated or to furnish such numbers as may be provided on any firm schedule.

The Department of the Air Force states that it is not in a position to furnish maintenance spares for the above aircraft as current United States military requirements and stock levels preclude the declaration as surplus of any such parts, and it suggests, therefore, that the Chinese Government may find it desirable to initiate procurement action with Republic Aviation Corporation, the manufacturer of these aircraft, in order to obtain such equipment.

WASHINGTON, June 25, 1948.

893.24/7-348

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to refer to the Memorandum of the Embassy dated April 12, 1948, dealing with the request of the Chinese Government for certain types of aircraft under the Eight and One-third Group Program for the Chinese Air Force, and to the Memorandum of the Department of State dated June 25, 1948, stating that the United States Government is prepared to make available to China through surplus channels a number of P-47-N fighter aircraft now located in the Pacific.

Pursuant to instructions, the Ambassador wishes to inform the Secretary that the Chinese Government is desirous of acquiring as soon as practicable the aircraft in question. It is, therefore, highly desirable that a procedure for the transfer should first be discussed and agreed upon.

The Ambassador will appreciate it if the Secretary would be good enough to authorize the Shanghai representative of the Office of the Foreign Liquidation Commissioner to contact the representatives of the Board of Supplies of the Chinese Government with a view to making the necessary arrangements for such transfer.

WASHINGTON, July 3, 1948.

893.24/7-848

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse) to the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] July 8, 1948.

Major MacGhee, Air Force P&O, called Mr. McAfee¹⁰ July 2 to state that the Far East Air Force had recommended that the delivery

¹⁰ William McAfee, Division of Chinese Affairs.

of fighter planes being transferred to the Chinese take place at Tainan, Taiwan, instead of at Okinawa. Mr. McAfee discussed this with Mr. Benninghoff¹¹ and me and subsequently informed Major MacGhee of this Department's approval of this change. In his second conversation with Major MacGhee Mr. McAfee repeated the conditions which had been previously established as governing the transfer of these planes: that the markings on the planes should be obliterated prior to their transfer to the Chinese; that no publicity should attend the transfers. He added that since the transfers were now scheduled to take place at Tainan rather than at Okinawa that not more than three planes should be delivered at a time. Major MacGhee stated that orders had been issued with respect to the first two conditions but added that FEAF hoped to deliver 32 planes to the Chinese within the period of a week in mid-July. Major MacGhee suggested that FEAF be instructed to space the deliveries of these planes evenly over that week. Mr. McAfee discussed this with Mr. Benninghoff and me and the Air Force was subsequently informed of this Department's approval of this proposal.

Mr. McAfee orally informed Mr. Tsui of the Chinese Embassy that the transfer would take place at Tainan, Taiwan, instead of at Okinawa.

893.24/7-348

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to his note of July 3, 1948 concerning the transfer to the Chinese Government of a number of P-47-N fighter aircraft now located in the Pacific.

Prior to the end of June the Office of the Foreign Liquidation Commissioner instructed its Shanghai representative to open negotiations with officials of the Chinese Government to effect the transfer of the above-mentioned aircraft. Final instructions with respect to the price at which the aircraft are to be offered have now been forwarded to the Shanghai representative of the Office of the Foreign Liquidation Commissioner, who has been authorized to conclude the necessary contract.

WASHINGTON, July 15, 1948.

¹¹ H. M. Benninghoff, Deputy Director of the Office of Far Eastern Affairs.

893.24/7-1948

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse) to the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] July 19, 1948.

Dr. Tan Shao-hwa, Chinese Minister, telephoned today and referred to the Department's memorandum of April 21,¹² enclosing a list of ammunition and other military items available under surplus arrangements for transfer to the Chinese Government. He pointed out that this was the same as the list enclosed with the Department's memorandum of March 4, except for a few items. Minister Tan stated that on page 6 of the list forwarded with the Department's memorandum of April 21 certain airplane engines had been enumerated as being available for the 8½ Group Program. He said that these engines were said by OFLC to be in the Pacific islands and that, therefore, negotiations must be negotiated with OFLC representatives at Shanghai. Minister Tan concluded with the request that OFLC representatives at Shanghai be instructed to enter into negotiations for the sale of these engines.

I telephoned Captain Sullinger of the OFLC and communicated the foregoing to him with a request for any available information he might have on the subject. Captain Sullinger said that OFLC had received a letter, dated July 14 from a representative of the Chinese Air Force, enclosing two photostatic copies of the list which the Department had forwarded to the Chinese Embassy on April 21. He said that 1,107 airplane engines had been listed on page 6 of this document. Captain Sullinger continued that his investigations to date indicated that ½ of these engines had already been delivered to the Chinese Government under the 8½ Group Program. He further stated that 375 engines for P-51s and P-47s had been turned over to the Chinese under the Hogan project (Calcutta stockpile) as part of the 8½ Group Program. It was his belief that perhaps all of these engines had already been turned over to the Chinese. He said that he would inform me further when he had completed his investigation of this matter.

893.248/7-1648

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Embassy's communications to this Department dated April 12 and May 20, 1948

¹² Not printed.

with respect to the implementation of the 81½ Group Program, and to the Department's communications to the Embassy, dated June 25 and July 15, 1948, respectively.

The Department has now received a letter from the Secretary of Defense¹³ indicating that certain questions relating to the 81½ Group Program and the delivery of planes by a United States aircraft carrier are still under consideration by the appropriate military authorities. The views of the National Military Establishment concerning these problems will be transmitted to the Embassy at a later date.

With respect to the purchase of the 95 fighter planes, the Department of the Air Force is prepared, should the Chinese Government purchase these through the Office of the Foreign Liquidation Commissioner, to furnish through the same channels those spare parts necessary to the reconditioning of the aircraft which the Chinese or their contractors are unable to secure from other sources.

The Secretary of Defense in his communication refers to the transfer of the P-47-N fighter aircraft to be effected as these aircraft become surplus to the United States Air Force requirements in the Pacific. It is anticipated that the schedule of transfers will be as indicated in the Department's memorandum of June 25, 1948 although the numbers and schedules of delivery will be, as previously noted, dependent on several variable factors.

WASHINGTON, July 26, 1948.

893.24/8-2048

Memorandum by the Deputy Director of the Office of Far Eastern Affairs (Benninghoff) to the Secretary of State

[WASHINGTON,] August 20, 1948.

There are attached two reports from the Office of the Foreign Liquidation Commissioner summarizing transfers to the Chinese Government of foreign and domestic ammunition between June 25, 1947, and August 16, 1948. One contract dates back to June 1947; the others have been implemented since November 6, 1947.

A total of 19,730,507 measurement tons of foreign surplus ammunition was accepted and shipped by the Chinese Government under the three contracts in Tab A.¹⁴ (This figure is less than the OFLC May 20, 1948, report by the amount not accepted by the Chinese Government.)

The transfers from domestic surplus are listed in Tab B¹⁵ by caliber

¹³ Dated May 24, p. 65.

¹⁴ Not printed.

¹⁵ Not printed; it listed 134,260,675 rounds of various calibre ammunition, 229,392 grenades, and 60,213 mines ordered. This included all offered except 302,059 rounds of two types of ammunition.

and general types rather than by tonnage. OFLC states that with the exception of some 5,000 grenades all domestic surplus ordered by the Chinese has been delivered.

II. ASSISTANCE TO CHINA UNDER THE \$125,000,000 GRANT OF THE CHINA AID ACT; CHINESE PLEAS FOR GREATER MILITARY ASSISTANCE AND SUPPORT FROM THE UNITED STATES

893.50 Recovery/4-648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 6, 1948—4 p. m.

489. Senate Foreign Relations Committee Report ¹⁶ and Senate debate on China Aid Act ¹⁷ indicated clearly \$125,000,000 grant to be used by Chi Govt "on its own option and responsibility" for whatever purpose "decided upon by the Chi Govt". Sen Vandenberg stated in debate Mar 29 [30]: ¹⁸ "This process must be completely clear of any implication that we are underwriting the military campaign of the Nationalist Govt". Sen Connally stated: ¹⁹ "It is in the nature of an outright grant to China for her own use, under her own responsibility, for whatever great and critical need may arise. There is not a word in the bill regarding military supplies or military aid. This measure is the best plan or device we could bring about in the Committee to extend aid to China, without making hard and fast commitments which we did not feel it was wise to make". (Deptel 483 Apr 3 ²⁰)

Committee Report states this grant is to be subject to "the administrative terms which the President deems appropriate", that grant is to be used by Chi Govt "without any of the conditions and controls which will prevail with respect to the expenditure" of the \$338,000,000 and that Committee does not intend that "Administrator of the Economic Cooperation Act ²¹ should be held responsible for this part of the bill". Legislative history indicates that phrase in the act "on such terms as the President may determine" refers to procedural and financial terms and not to screening of requirements or supervision of end use.

It should be noted that China Aid Act as passed reduces by the amount of this grant the amount for essential commodity imports under program to be administered by ECA.

¹⁶ No. 1026, *Aid to China*, Senate Foreign Relations Committee, March 25, 1948 (Washington, Government Printing Office, 1948).

¹⁷ Title IV of the Foreign Assistance Act of 1948, approved April 3, 1948; 62 Stat. 137, 158.

¹⁸ *Congressional Record*, 80th Cong., 2d Sess., p. 3668.

¹⁹ *Ibid.*, p. 3693.

²⁰ *Post*, p. 485.

²¹ Title I of the Foreign Assistance Act of 1948.

China Aid Act does not require U. S. military aid mission to China since in final action Greek pattern ²² was not adopted for China. Executive Session hearings Senate Foreign Relations Committee indicated clearly Committee's desire to avoid placing China in same category as Greece in respect to military aid. AAG ²³ will not, therefore, be expected to administer military assistance program under the act. Rptd Shanghai as 597.

LOVETT

893.50 Recovery/5-1148

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] May 11, 1948.

Participants: Tan Shao-hwa, Chinese Minister
Mr. Ringwalt, CA ²⁴
Mr. Sprouse, CA

Minister Tan called at the Department by appointment today to make certain inquiries regarding the \$125 million grant under the China Aid Program. He explained that Ambassador Koo ²⁵ had suggested to him and to Dr. Lee Kan, acting head of the Chinese Technical Mission, that they approach their friends at the Department of State in this regard. Minister Tan stated that the Chinese Government planned to use the entire amount for expenditures of a military character, with some of it going to the Chinese Army for purchases of munitions, some to the Chinese Air Force and a small amount for the Chinese Navy. He further stated that the Chinese Embassy has just received word that plans for the expenditure of this grant would be forwarded to it from Nanking within a short time. Minister Tan said that a General Yang, Chief of Ordnance, was expected to arrive in Washington in the near future to take the necessary action to acquire military equipment for the Army and that General Mow ²⁶ would act similarly for the Chinese Air Force. When asked what orders had been placed for the purchase of munitions from commercial sources in the United States, the Minister said that, while the Embassy had recommended such action to the Chinese Government, no steps had as yet been taken to that end. He pointed out that the

²² Title III of the Foreign Assistance Act of 1948; for United States-Greek Relief Agreement, signed July 8, 1947, see Department of State *Bulletin*, July 20, 1947, p. 139.

²³ Army Advisory Group.

²⁴ Arthur R. Ringwalt, Chief of the Division of Chinese Affairs.

²⁵ V. K. Wellington Koo.

²⁶ Lt. Gen. P. T. Mow, Deputy Commanding General of the Chinese Air Force and Chief of the Chinese Air Force Office in the United States.

most urgent need was for .30 caliber rifle ammunition which the U.S. Army had recently indicated was not available from surplus stocks.

Mr. Ringwalt explained that he had recently made a second request of the Department of the Army to ascertain whether such ammunition might not be available for transfer to the Chinese Government.

Minister Tan then expressed an interest in knowing what procedures would be followed in making this \$125 million grant available to the Chinese Government for its purchases.

Mr. Sprouse replied that this was a matter for approval by the President and that work was being done in this regard and should be completed this week. He added that the terms decided upon by the President would be promptly communicated to the Chinese Embassy.

Minister Tan made an oblique reference to the possibility that for "diplomatic reasons" the Department might wish "to close one eye" to Chinese purchases of military equipment. Mr. Sprouse rejoined that, in his personal opinion, the Congress would be interested in knowing how this grant was spent even though it had been indicated that the Chinese Government was to use it for whatever purpose it might decide upon. The conversation then turned to other subjects unrelated to the China Aid Program.

893.50 Recovery/5-1748

*Memorandum by the Secretary of State to President Truman*²⁷

WASHINGTON, May 14, 1948.

Subject: Administrative Terms to Govern the \$125 Million Grant under the China Aid Act.

Section 404 (b) of Title IV (China Aid Act of 1948) of the Foreign Assistance Act of 1948 authorizes the appropriation to the President of a sum not to exceed \$125 million for additional aid to China through grants, on such terms as the President may determine and without regard to the provisions of the Economic Cooperation Act of 1948. This section of the Act retains the exact wording, except for the substitution of \$125 million for \$100 million, of the Senate's version of this portion of the Act. The pertinent portions of the Senate Foreign Relations Committee Report on Aid to China and debate in the Senate on this subject are, therefore, applicable to this section of the Act.

The Committee Report states that this grant is to be subject to "administrative terms which the President deems appropriate", that the grant is to be used by the Chinese Government "without any of the conditions and controls which will prevail with respect to the

²⁷ Marginal notation: "Approved, May 17, '48. Harry S. Truman".

expenditure" of the \$338 million authorized under Section 404 (a) of the Act and that the Committee does not intend that the "Administrator of the Economic Cooperation Act should be held responsible for this part of the bill". The Report further states that the grant is to be used by the Chinese Government "on its own option and responsibility" and "for whatever purpose decided upon by the Chinese Government". Legislative history indicates that the phrase in the Act "on such terms as the President may determine" refers to procedural and financial terms and not to screening of requirements or supervision of end use.

During the debate in the Senate on the China Aid Act on March 29 Senator Vandenberg stated: "This process must be completely clear of any implication that we are underwriting the military campaign of the Nationalist Government." Senator Connally stated: "It is in the nature of an outright grant to China for her own use, under her own responsibility, for whatever great and critical need may arise. There is not a word in the bill regarding military supplies or military aid. This measure is the best plan or device we could bring about in the Committee to extend aid to China, without making hard and fast commitments which we did not feel it was wise to make."

It is recognized that such expenditures as the Chinese may make under this grant for items in short supply will have to be taken into account by the Administrator in connection with his programming of the requirements of other countries and his evaluation of the impact on the American economy. However, the Department of State should have no difficulty in arranging informally for the Chinese Embassy to keep the Administrator or other concerned Government agencies advised regarding Chinese expenditures under Section 404(b) of the China Aid Act.

In view of the expressed intention of the Senate Foreign Relations Committee, which originated this section of the Act, that the Administrator should not be responsible for this portion of the Act and in the light of the considerations listed above, it is recommended that the President delegate his powers under Section 404(b) of the China Aid Act of 1948 to the Secretary of the Treasury. Since the Chinese will not be able to make any expenditures under this grant until the required administrative terms are decided upon and incorporated in an agreement between the United States and Chinese Governments, it seems desirable that this matter be handled as expeditiously as possible. The Department of State would, of course, forward to the Chinese Embassy the document prepared by the Secretary of the Treasury setting forth the administrative terms to govern this grant and would arrange for an exchange of letters or for a formal agreement containing Chinese acquiescence to these terms.

G. C. MARSHALL

593.00/6-248

*Memorandum of Conversation, by the Assistant Chief of the Division
of Chinese Affairs (Sprouse)*

[WASHINGTON,] June 2, 1948.

Participants: Mr. Dening, Assistant Under Secretary for Foreign
Affairs, British Foreign Office
Mr. Graves, Counselor, British Embassy
Mr. Butterworth, Director, Office of Far Eastern
Affairs
Mr. Green,²⁸ NA
Mr. Sprouse, CA

(The conversation described hereunder is one of the series of conversations between Mr. Dening and Mr. Butterworth and other officers of the Department regarding various aspects of the situation in the Far East.)

Mr. Dening opened the conversation by referring to the efforts of the British Government to go along with the U. S. Government during parts of 1946 and 1947 in not permitting the sale of munitions to the Chinese Government. He explained that his Government had been somewhat embarrassed since it had publicly announced this policy and now found itself in a difficult position because of the constant criticism of aid to China from Lord Lindsay and other like-minded members of Parliament who continued to look upon the Chinese Communists as agrarian reformers. Consequently, he said, the British Government had not yet made public any change in its previous ban on the sale of munitions to China, although it was now selling military supplies to China from time to time. Prefacing his query with the statement that the British Government was not selling munitions to T. V. Soong²⁹ or other Chinese leaders in southeast China, he asked what the U. S. Government's attitude would be toward such action by the British Government. He further stated that he was aware that the U. S. Government had long since relaxed its ban on the shipment of munitions to China and expressed an interest in knowing what military supplies were now going forward to China from the United States.

Mr. Butterworth gave a full explanation of the circumstances surrounding the imposition of the ban on the shipment of munitions to China in 1946 and the lifting of this ban in May 1947. He continued with an explanation of the subsequent negotiations involving the sale of various surplus military items to the Chinese Government, the

²⁸ Marshall Green, Division of Northeast Asian Affairs.

²⁹ Governor of Kwangtung.

problems involved in disposing of surplus war matériel in the Pacific islands and the Chinese lack of interest in obtaining munitions from commercial sources because of their desire to purchase such matériel from U. S. surplus stocks at prices only a fraction of their procurement cost. With reference to Mr. Denning's query concerning the possible sale of munitions by the British Government to Chinese leaders in southeast China, Mr. Butterworth made it clear that this Government would not have any objection thereto.

Mr. Butterworth went on to describe the China aid program and the background of the legislative history of the China Aid Act of 1948. In this explanation he emphasized the differences between the thinking of the House and the Senate with respect to the question of military aid to China and the legislative evolution of the section in the Act providing for additional aid of \$125 million in grants. He pointed out the desire of the Senate Foreign Relations Committee to avoid having the U. S. Government assume responsibilities and enter into commitments in China similar to those with which it was confronted in Greece and compared the "tea cup" of Greece to the "ocean" of China.

Mr. Butterworth then went on to describe the purposes of the China aid program as it had developed from the Department's original bill and the part that it was hoped would be played by the rural reconstruction program under the China Aid Act towards bringing about improvement in rural areas of China which were so important to the Government in its present situation. He described the composition of the Economic Cooperation Mission that would shortly proceed to China and the various aspects of the program and expressed the hope that the British Government, because of its own interest in the Canton-Hankow Railway, would do what it could to cooperate in this project envisaged as a possibility under the reconstruction portion of the program.

Referring to the general political situation, Mr. Butterworth stated that the American Ambassador had of late been somewhat pessimistic with regard to the possibility of the Generalissimo's³⁰ ability to carry out the reforms necessary to restore confidence in and strengthen the Chinese Government in its struggle against the Chinese Communists and that this was a matter of concern to the Department since Dr. Stuart was on such close and intimate terms with the Generalissimo.

Mr. Denning replied that he was not fully up to date on the latest developments in China but that this seemed to confirm in general reports received from British official sources in China.

Mr. Sprouse gave a brief explanation of the background of the most recent developments with respect to the new cabinet and the

³⁰ President Chiang Kai-shek.

ranking military appointments and added an explanation of the role of the U. S. Army and Naval Advisory Groups in China.

In reply to a question regarding the British opinion of Marshal Li Chi-shen and his Kuomintang Revolutionary Committee at Hong Kong, Mr. Dening said that it was his understanding that Marshal Li was not being taken seriously as an important factor in the Chinese scene. Mr. Dening went on to express the serious concern of the British Government over the dangers to the regions south of China, including Hong Kong, inherent in the increasing strength of the Chinese Communists in China and the possibility of an eventual Communist-controlled China.

Mr. Butterworth replied that the U. S. Government was equally aware of these dangers.

Mr. Dening expressed a desire that there continue to be consultation between the British and U. S. Governments regarding developments in China and voiced his appreciation of the conversations he had had on these and related subjects.

Mr. Butterworth agreed on the desirability of continued close contacts with respect to these developments and stated that the Department had only a few days ago instructed the Embassy at Nanking to keep the British and French Missions informed of its plans regarding the evacuation of American nationals from north China after reference of this matter to the Chinese Foreign Office. He explained that if the American Embassy had not yet done so it was probably due to the circumstance that the interchanges with the Foreign Office on this subject had not yet been completed.

The conversation was concluded upon arranging that discussions of Southeast Asia would be held at the next meeting on June 4.

893.50 Recovery/7-148

President Truman to the Secretary of State

WASHINGTON, June 2, 1948.

MY DEAR MR. SECRETARY: I am in general in accord with the position expressed in your memorandum to me of May 14, 1948, regarding the provision of additional aid to China as authorized by Section 404 (b) of the China Aid Act of 1948. It is my desire that the grants to China under this section of the Act be made under the following procedures:

1. The Chinese Government will, from time to time, submit to the Department of State requests for payment with respect to commodities or services procured by it, supported by invoices or other appropriate documentation evidencing the transactions.

2. The Department of State will examine the documentation submitted by the Chinese Government to determine that the request is not in excess of the total represented by the invoices or other supporting data, and will authorize the Treasury to make the appropriate payments to the Chinese Government.

3. The Secretary of State will request from the Chinese Government monthly reports showing in as much detail as possible the purposes for which expenditures have been made out of the funds provided to it under the authority of Section 404 (b) of the Act.

Attached is a copy of my letter to the Secretary of the Treasury³¹ informing him of this procedure and making an allocation of \$13,500,000 to carry out the provisions of Section 404 (b) of the China Aid Act of 1948.

Sincerely yours,

HARRY S. TRUMAN

893.24/6-248

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, referring to the conversation he had with the Acting Secretary of State on April 9, 1948,³² inquiring as to the procedure to be followed in regard to the use of the "sum not exceeding \$125,000,000 for additional aid to China through grants" as stipulated in the China Aid Act of 1948, has the honor to transmit herewith two Lists of Items of Military Supplies and Equipment: one for the Chinese Army and Navy, the other for Chinese Air Force, to be procured immediately in the United States with the funds provided for under Section 404 (b) of the said Act. These Lists are summary statements abridged from two comprehensive procurement programs, which will be submitted in due course.

The said Lists cover the immediate requirements of the Army and Navy, and the Air Force, to which the Chinese Government proposes to allot 75.84 and 22.56 per cent. respectively of the above-mentioned sum. The list of articles needed by the Armored Force, which repre-

³¹ Dated June 2, Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 947.

³² *Post*, p. 490.

sent 1.6 per cent. of the total, will be transmitted to the Department of State presently.

The data conveyed in the List for the Army and Navy are brought to Washington by Major General Yang Chi-tseng, Chief of the Ordnance Department, accompanied by Brigadier General Chien Li, Deputy Chief of Military Transportation Department; Colonel Koo Hou-ying, Deputy Division Head of the Signal Department; Lieutenant Colonel Shao-chi Tong, Branch Head of the Field Service Division of the Ordnance Department; and Commander H. L. Huang, Assistant Executive Officer of the Navy Command Forces. It is to be added that the Chinese Government has also appointed Lieutenant General Chu Shih-ming to come to Washington to assist the Embassy in connection with the procurement of military supplies. He, conjointly with Lieutenant General Yang and his group, will supply technical information and handle matters pertaining to the procurement of the necessary ammunition and items of equipment for the Chinese Army and Navy.

The List for the Air Force is furnished by the Chinese Air Force through Lieutenant General P. T. Mow, Deputy Commanding General of the Chinese Air Force and concurrently Chief of the Office in the United States of the Chinese Air Force, who will undertake to perform the like functions in so far as the needs of the Chinese Air Force are concerned.

The said officers stand ready to supply any information or details of a technical nature as regards the requirements in their respective fields.

The Ambassador will be obliged if the Secretary would be good enough to indicate the agency or agencies of the United States Government which the above-mentioned representatives of the Chinese Government may contact and to which they may supply the necessary information with a view to clarifying the technical requirements of China's armed services.

WASHINGTON, June 2, 1948.

[Enclosure 1]

JUNE 2, 1948.

SUMMARY OF ITEMS OF MILITARY SUPPLIES AND EQUIPMENT FOR THE CHINESE ARMY AND NAVY TO BE IMMEDIATELY PROCURED WITH FUNDS PROVIDED FOR UNDER SECTION 404(b) OF THE CHINA AID ACT OF 1948 ³³

DISTRIBUTION OF \$125,000,000 U. S. A. SPECIAL AID TO CHINA

Combined Services Forces—Army Part

Ordnance	\$ 39,070,000
Transportation	24,225,000
Signal	10,480,000
Medical.....	7,000,000
Engineer.....	2,625,000
Quartermaster.....	1,750,000
Special Service.....	150,000
Air Force.....	28,200,000
Navy	9,500,000
Armored Force.....	2,000,000

Total..... \$125,000,000

[Here follow detailed statistics in breakdown of the foregoing summary.]

[Enclosure 2]

JUNE 2, 1948.

LIST OF ITEMS OF MILITARY SUPPLIES AND EQUIPMENT OF THE CHINESE AIR FORCE TO BE PROCURED IMMEDIATELY FROM THE FUNDS PROVIDED FOR UNDER SECTION 404(b) OF CHINA AID ACTS OF 1948

FOREWORD

1. This summary represents the first priority requirements of the Chinese Air Force for aircraft, spare parts, supplies and accessories, equipment, ammunition and explosives for the year of 1948. However, POL ^{33a} requirements, which are supposed to be dealt with under separate funds, are not included. A detailed list on which this summary is based is also available.

2. The total value of the requirements, based on original procurement costs during the Second World War, of various items contained herein, is estimated to be about \$123,974,145.58.

³³ The following note appeared on the original:

"This summary is intended solely to give a general idea of the material desired. Full information with details is contained in the studies on which this summary is based."

^{33a} Petroleum, oil, and lubricants.

3. It is contemplated that all items could be obtained from surplus stock at the average price of 171½% of the original procurement cost. Therefore, the actual cost of all items herein listed will arrive at an approximate amount of \$21,500,000.

4. Any items, or part of that which might have been already secured from the existing two Master Agreements between the Chinese Government and the Office of the Foreign Liquidation Commission, signed on January 30, 1948, and March 16, 1948, respectively, will be deleted accordingly when the actual requisition takes place. Therefore, the estimated amount in the previous paragraph could be considerably reduced, and with the money thus reduced plus the balance of \$6,700,000, from the tentative allotment appropriated for the Chinese Air Force from "China Aid", \$28,200,000 will be used as funds of PH & T for the purchased property.

5. In case no surplus stock could be made available, then the Chinese Air Force will place orders from the current market or manufacturer, in order to meet its most urgent requirements. It will stop such practice when the remaining fund from the original allotment, \$28,200,000, is barely enough to cover the PH & T for the property already purchased. It will continue the procurement only when a new allotment is available.

SUMMARY OF ESTIMATED TOTAL PROCUREMENT COST OF THE 1ST PRIORITY
FOR CHINESE AIR FORCE REQUIREMENTS IN THE YEAR 1948

<i>Item</i>	<i>Description</i>	<i>Procurement Cost</i>
1.	Combat Aircraft	\$ 71,189,300.00
2.	Training Aircraft	12,517,500.00
3.	Bombs, Ammunition and Aircraft Armament Supplies	15,701,024.00
4.	Air Corps' Supplies	19,340,341.94
5.	Signal Supplies	990,077.74
6.	Weather Supplies	830,402.00
7.	Vehicles Supplies	1,818,808.90
8.	Medical Supplies	161,691.00
9.	Maintenance Matériel for Aircraft	1,425,000.00
Total		\$123,974,145.58

[Here follow detailed statistics in breakdown of the foregoing summary.]

893.50 Recovery/6-748

Memorandum of Conversation, by the Secretary of State ³⁴

[WASHINGTON,] June 7, 1948.

Participants: Mr. Forrestal, Secretary of Defense
Mr. Royall, Secretary of the Army
Mr. McNeil, Assistant to Secretary Forrestal
Mr. Marshall, Secretary of State
Mr. Sprouse, CA
Mr. McAfee, CA

Secretary Forrestal opened the conversation by referring to the letter addressed to him by Senator Bridges, Chairman of the Senate Appropriations Committee, asking for information with respect to Chinese military needs and to what extent they would be met by the grants under the China Aid Act of 1948. He continued that he wished to have no conflict in what has already been said on this subject in any statements that may be made by representatives of the National Military Establishment who would testify on aid to China before the Senate Appropriations Committee. Secretary Forrestal stated that the Chinese had indicated that the \$125 million grants under the China Aid Act would be used for military purchases under the following allocations among its armed services: Army, \$87,500,000; Air Force, \$28,000,000; and Navy \$9,500,000.

Secretary Royall stated that an *ad hoc* committee of Army, Navy and Air Force representatives, in which General Wedemeyer ³⁵ participated, had estimated that Chinese Government military needs against the Communists for one year totalled \$973,000,000 and had supported the \$125 million grants provided that Chinese expenditures of these funds were supervised. He pointed out that he saw no justification for piece-meal programs which would fall short of the objective of providing realistic assistance and for that reason he did not agree that the U. S. should give military aid to China. He further said that he had so testified before the House Appropriations Committee.

I then read the text of a note, dated June 2, 1948 which had just been received from the Chinese Ambassador, in which he had listed the names of recently arrived Chinese military officers, had enclosed a list of military items which the Chinese Government planned to purchase from the \$125 million grants and had asked that he be informed of the U. S. Government agencies which these Chinese officers could approach with a view to clarifying the technical requirements of China's armed forces. I also read the text of a letter, dated June 2, 1948 from the President to me in which were set forth the

³⁴ Drafted by the Assistant Chief of the Division of Chinese Affairs (Sprouse) and by William McAfee of the same Division.

³⁵ Lt. Gen. Albert C. Wedemeyer, Director of Plans and Operations of the Army General Staff.

administrative terms to govern the disbursement of the \$125 million grants to the Chinese Government. (I handed copies of the Chinese Ambassador's note and the President's letter to Secretary Forrestal and Secretary Royall.)

I pointed out that the U. S. Government must not allow itself to become undesirably involved in administering the \$125 million grants and that it was necessary to maintain a distinction between advice and assistance lest the U. S. Government be placed in a position of underwriting the entire Chinese military program and running the Chinese Government. I indicated my belief that the U. S. Government should limit its action in this regard to putting the Chinese in contact with the concerned officers of the Department of the Army, Navy and Air Force who could give them help in spending these funds wisely and asked Secretary Forrestal to furnish the names of such officers so that this information could be transmitted to the Chinese Ambassador.

Secretary Forrestal said that the core of the problem seemed to be the degree of guidance which should be extended to the Chinese Government in the spending of the \$125 million grants.

I again expressed the opinion that the U. S. Government should not attempt to run the Chinese Government's war but should point out the channels through which the assistance provided in these grants could best be made available. In reply to Secretary Forrestal's query whether the U. S. Government should supervise the Chinese Government's purchasing program under these grants, I stated that there was no objection to giving the Chinese appropriate advice in this regard but that the U. S. should not undertake to run the Chinese Government military effort in China. I then read excerpts from a document prepared in the Division of Chinese Affairs³⁶ which recommended that the concerned officers of the Departments of the Army, Navy and Air Force extend appropriate advice to the Chinese representatives in their expenditures of the \$125 million grants. I said that the Chinese should be put in touch with those officers and that it was not necessary to spell out what should be done since the intent of the Congress and the President was sufficiently clear on this point.

Secretary Forrestal indicated that Senator Bridges requested in his letter three types of information: (1) A report on the military situation. (Secretary Royall said that the Department of the Army would have this information prepared for the hearings.) (2) A report on the volume of past aid. (Secretary Royall stated that his Department would provide these figures, much of which had already been submitted to the Congress by the Department of State. I pointed out that additional contracts for the sale of military surplus had been concluded with the Chinese Government since the submis-

³⁶ Not found in Department files.

sion of the previous data.) (3) A statement of the Chinese Government's dollar requirements for military expenditures.

When Secretary Royall referred to his previous statement that military needs would total \$973,000,000, I emphasized that the mere provision of military equipment would not achieve the defeat of the Communists since the U. S. had already transferred considerable quantities of such equipment. I continued that this equipment and the divisions handling it had been misused by Chinese leadership. I further noted that the recent appointments of high military officers, such as the Chief of Staff,³⁷ indicated no improvement in the quality of Chinese military commanders and that to compensate for this lack of leadership it would be necessary to send to China large numbers of U. S. officers, not now available. This would result in the U. S. assuming responsibility for the Chinese Government's war effort. I added that it was possible, however, to render more direct assistance in the training and equipping of naval forces, since this represented a minimum of involvement compared with that connected with land forces.

Secretary Royall expressed the opinion that the Department of the Army should stand on the course of action outlined in the President's letter and the general intent expressed in the China Aid Act of 1948.

Secretary Forrestal asked if it would be desirable to have a more forceful and aggressive head of the Army Advisory Group than General Barr.³⁸

I replied that General Barr had been selected in the belief that he would work well with the Generalissimo and that he had apparently been doing so. I added that I did not think it was necessary to replace General Barr since he was being effective and a more vigorous man might not work so well with the Generalissimo and thus cause difficulty.

Secretary Forrestal said that General Barr would be asked to comment on the military situation and the Chinese military purchases under the \$125 million grants.

Discussion at this point turned to the status of the 8½ Group Program, as I asked for the latest information on the degree to which it had been completed.

Mr. McAfee stated that although certain spares were not available the remaining combat aircraft were available and contracts covering their transfer were under discussion with the Chinese. He said that this complement included 95 fighters and 37 heavy bombers and that it has been proposed that fighters be substituted for these bombers. He further stated that there had been delay in concluding contracts with the Chinese because of their reluctance to accept the terms offered by the U. S. Army. Mr. McAfee noted that in the meantime

³⁷ Gen. Ku Chu-tung.

³⁸ Maj. Gen. David G. Barr.

the Department of the Air Force has developed and has received the State Department's approval for a program which will result in the transfer to the Chinese from the Pacific area up to 166 fighters in combat operational condition. He explained that these planes were not being transferred as a part of the 8½ Group Program in order to avoid responsibility for the future provision of spares, although approximately 10 percent of the spares were to be made available with these planes.

I pointed out that the transfer of all these planes would then more than fulfill the U. S. Government's commitments with respect to planes under the 8½ Group Program.

Mr. McAfee replied that this was true with regard to planes, according to the U. S. Government's figures, but that the necessary spares under this program were not sufficient to complete the program. In reply to my query regarding the present status of the 150 C-46 planes sold to the Chinese Government in December 1947, at least 50 of which were said to have been in operational condition, Mr. McAfee said that no information was presently available regarding this matter but that it was his understanding that these planes were not in operational condition required to cross the Pacific and were to be flown to the West Coast for the necessary repairs. He stated that he would endeavor to obtain the necessary information regarding the schedule of their arrival in China.

Secretary Forrestal inquired regarding General Ho Ying-chin, recently appointed Minister of National Defense.

I replied that he was not a competent military commander but rather a politically powerful figure who would be interested in succeeding to power in the event of the collapse of the Generalissimo's authority. I also pointed out that he had consistently been uncooperative during my mission to China³⁹ and had opposed the things I had tried to accomplish. Mr. Sprouse indicated his concurrence with this description of General Ho.

The conversation then turned to other recent Chinese military appointments which seemed to indicate little promise for effective military action except in the case of General Pai Chung-hsi,⁴⁰ whom I described as an able commander. Favorable comment was also made regarding General Fu Tso-yi⁴¹ and Marshal Wei Li-huang.⁴²

With respect to the China Aid Program I suggested that if the Department of the Army should take the position in its testimony before the Senate Appropriations Committee of not favoring military aid at present it would be in order to recommend that the \$125 million

³⁹ December 1945-January 1947.

⁴⁰ Former Chinese Minister of National Defense; Commander in Chief of Central China Bandit Suppression Headquarters.

⁴¹ Commander in Chief of North China Bandit Suppression Headquarters.

⁴² Commander in Chief of Northeast Bandit Suppression Headquarters.

be allocated to economic aid, as had been the case in the State Department's original aid program.

After a general discussion on the effect of recent reductions in the amount to be available, Secretary Royall asked what the Department of the Army should recommend if asked to set a percentage of the China aid funds to be earmarked for military aid.

I said that we should not commit ourselves on this point but that information on Chinese military aid could be presented to the Committee as set forth in the Chinese Ambassador's note of June 2.

Mr. Sprouse pointed out that the administrative terms decided upon by the President and set forth in his letter of June 2 had not yet been communicated to the Chinese Embassy since the legal division of the State Department felt it unwise to forward them to the Chinese until final action on the China Aid Act had been taken by the Congress.

Secretary Royall stated that in any event the terms decided upon could be made known to the Senate Appropriations Committee during the hearings.

With respect to the reduction in the over-all aid funds to foreign governments, it was agreed that in answer to any specific questions Department of the Army representatives would indicate that the need existed for the restoration of the total funds previously authorized for these programs.

893.50 Recovery/6-948

Memorandum of Telephone Conversation, by the Assistant Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] June 9, 1948.

I telephoned Mr. Tsui ⁴³ this morning to inform him that while the administrative terms to govern the disbursement of the \$125 million grants under the China Aid Act had been decided upon by the President, we could not communicate them to the Chinese Embassy until final Congressional action had been taken on the appropriations for the China Aid Act. I explained that these terms had been determined some time ago but that on each occasion when we had been on the verge of forwarding them to the Chinese Embassy Congressional action during the hearings on the appropriation bill had made necessary a further postponement. I concluded that I was conveying this information to him informally and in confidence.

⁴³ Tsui Tswen-ling, Counselor of the Chinese Embassy.

893.50 Recovery/6-948

Memorandum by Mr. William McAfee, of the Division of Chinese Affairs, to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] June 9, 1948.

In response to your request I called on General Wedemeyer on the afternoon of June 8. You had informed me that General Wedemeyer while at lunch with you in the Pentagon had indicated that in his testimony before the Senate Appropriations Committee he would favor aid to China as instructed by General Marshall. You noted that General Wedemeyer referred to the conference between Mr. Forrestal, Mr. Royall and the Secretary as the source of this directive.

In my conversation with General Wedemeyer I stated that Mr. Sprouse and I had attended this conference and had subsequently reported on it to you, and that you therefore were aware of a discrepancy in the interpretations placed on General Marshall's remarks by the respective Departments. In order to clarify the State Department position, I gave General Wedemeyer the following report on the conversation:

Mr. Forrestal indicated that Mr. Royall and General Wedemeyer would represent the Army at the Senate hearings and he asked if General Marshall had any comments. General Marshall said that the arrangements proposed by Mr. Forrestal were agreeable to him and he continued that he had at all times sought to avoid any action which could be interpreted as an attempt on his part to influence testimony that General Wedemeyer might be called on to make.

General Wedemeyer indicated that his interpretation of General Marshall's statements had been based on a memorandum of conversation prepared by Secretary Royall in which the latter noted Mr. Forrestal's comments to the effect that Mr. Royall would oppose aid to China, but that General Wedemeyer would testify in favor of aid to China. Mr. Royall's memorandum further noted that General Marshall had indicated that he would like General Wedemeyer to do this. General Wedemeyer had interpreted the last statement as meaning that General Marshall would like him to represent the opinion favoring aid to China.

General Wedemeyer accepted the interpretation given by me as representing General Marshall's position and he thanked me for having clarified this statement. He asked that I convey his appreciation to you.

893.50 Recovery/6-748

*Memorandum by the Secretary of State*⁴⁴

[WASHINGTON,] June 10, 1948.

Subject: Amendment to Summary of Part [*June ?*] 7 regarding "Assistance to China" in conversation with the Secretary of Defense and the Secretary of the Army.

The foregoing statement, though correct in the main, does not make clear two points of importance that I made in the conversations.

I stated that the Department's recommendation which had just been submitted to me and which endeavored to make a distinction between "advice" and "assistance" was not acceptable to me; that I did not think it necessary—or wise, to issue any instructions of that character which could result in interpretations that would completely subvert the policy we have been following. That policy is for this Government not to become directly involved in the conduct of the war in China. I therefore felt all that was required was to meet the request stated by the Chinese Ambassador in the document I read in the meeting, to place the representatives of the Chinese Government in touch with the officials of the Armed Forces or otherwise who could render them the necessary assistance in making the desired purchases. I did not think we should endeavor to define the exact attitude of the officers so selected. That, I felt, was an unnecessary detail.

In regard to the statements that might be made before the Senate Appropriations Committee, I felt that it was important that the statement of what had already been done in the way of military supplies from surplus should be brought up to date since a great deal had transpired since the previous statements before the Committees of Congress.

G. C. MARSHALL

893.50 Recovery/6-1148

*Memorandum of Conversation, by the Secretary of State*⁴⁵

[WASHINGTON,] June 11, 1948.

Subject: China Aid Act of 1948; Relation of the U. S. Army Advisory Group to Military Type Aid under the Act

Participants: Mr. Royall, Secretary of the Army
 Mr. Draper, Under Secretary of the Army
 General Bradley, Chief of Staff
 General Wedemeyer, Director, Plans and Operations
 Mr. Marshall, Secretary of State
 Mr. Thorp, Assistant Secretary of State
 Mr. Butterworth, Director for Far Eastern Affairs
 Mr. Sprouse, CA

⁴⁴ Notation by Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State: "Dictated but not read".

⁴⁵ Drafted by the Assistant Chief of the Division of Chinese Affairs (Sprouse).

Secretary Royall explained that discussion of the above-mentioned subjects was necessary because he and General Wedemeyer had been called upon to testify in this regard before the Senate Appropriations Committee on the preceding day ⁴⁶ and were expected to testify also on June 12. He stated that the issue was U. S. supervision of military expenditures by the Chinese Government under the \$125 million grants and the related issue of tactical or strategic control of the Chinese Government military operations. He continued that the newspapers have drawn a distinction between his views and those of General Wedemeyer as expressed in the hearings before the Senate Appropriations Committee on the preceding day, but that actually their views were not so divergent as the press had indicated. He pointed out that General Wedemeyer had said that he favored "strong supervision" while he himself had said that he did not want the United States to become intimately involved in the Chinese civil war but at the same time did not want the aid to China wasted. He had then read the three conditions established by the President to govern the extension of the aid to China under the \$125 million grants. Secretary Royall said that it was his desire that the same line be taken by all concerned in this matter and that the views of the Department of the Army not differ from those of the Department of State. Referring to the recent top secret telegrams ⁴⁷ on the China situation received from General Barr and the Air Division of the U. S. Army Advisory Group, Secretary Royall said that they gave him pause for concern in that they were logical telegrams indicating the great need for control of military operations in China. In view of these telegrams, he asked, should the terms established by the President be altered and should the matter be taken to the President? He requested General Bradley to state his views on this subject.

General Bradley replied that judging from the telegrams the situation in China had deteriorated seriously and it was questionable whether the Chinese could do anything on the offensive side without U. S. aid. He said that such aid was probably necessary to spur them on and instill spirit in them. He added that this was, however, a question of U. S. Government policy and that, while it seemed logical to have U. S. supervision, he did not know to what degree or the feasibility of such action.

I expressed the opinion that the supervision of the expenditures under the enabling act of the \$125 million grants was sufficiently covered by the terms established by the President. I continued that these terms avoided a serious dilemma for the U. S. and were sufficient to protect U. S. interests. I said that I had read the recent telegrams

⁴⁶ See *Economic Cooperation Administration*: Hearings before the Senate Committee on Appropriations, 80th Cong., 2d sess. on H.R. 6801 (Washington, Government Printing Office, 1948), pp. 470 ff.

⁴⁷ Not found in Department files.

from the U. S. Army Advisory Group and similar telegrams from Ambassador Stuart. The latter, I pointed out, indicated that the Generalissimo had registered his assent to having U. S. supervision but this meant nothing because of his customary willingness to say "yes" without, however, accepting the advice given. I explained that I had arrived at what I considered a single solution, that is, for the naval side of the problem, and had had prepared this morning a statement along the following lines which would cover this: "The Department of State would have no objection to U. S. Naval officers assisting in the instruction and training of Chinese naval crews both at sea and in port."⁴⁸ I said that I had asked that something be prepared covering the air side of Chinese military operations and then read the following statement: "The Department of State would have no objection to the Air Division of the U. S. Army Advisory Group assisting the Chinese Air Force by furnishing instruction and advice in logistics, organization, tactics, administration and other related military subjects provided that U. S. officers so engaged shall not participate in official or other activities in areas of actual hostilities." I added that I agreed with the first part of this statement but that the other part (which I did not read aloud) contained too many provisos.

Referring to the instructions which had been issued to the U. S. Army Advisory Group, I said that they were probably confusing from the Army side and then read the pertinent telegrams from the U. S. Army Advisory Group and from the Department of the Army in regard to the question of training of Chinese troops. I said that these might have given considerable latitude but for the stipulations governing the establishment of the training center in Formosa. I pointed out that General Barr, during his discussions with me prior to his departure for China, had expressed his desire to have a directive and that I had indicated that he would be better off without a directive since that would give him latitude not possible if such a directive were issued. I was not aware at that time, I added, of the stipulations regarding the training in Formosa. When the question arose regarding the establishment of a training center in Nanking, I had considered that he had freedom to take such action and had sent a telegram to Ambassador Stuart asking why General Barr felt the need for authorization therefor.⁴⁹

In reply to Secretary Royall's query whether these instructions referred specifically to Formosa, I said that they did. After discussion regarding the directives issued to the U. S. Army Advisory Group, it was agreed that the Presidential directive governed their

⁴⁸ See paragraph 6 of memorandum by the Chief of the Division of Chinese Affairs, June 15, p. 259.

⁴⁹ See telegram No. 398, March 3, 2 p. m., from the Ambassador in China and subsequent correspondence, pp. 253 ff.

activities and that this was a general directive. I then read the telegram from the Department of the Army to the U. S. Army Advisory Group containing the stipulations concerning the establishment of the training center in Formosa and added that I had overlooked this instruction when the question of the training center in Nanking had arisen.

Secretary Royall stated that he might have thought this instruction was indicative of policy elsewhere.

I then read the Department's telegram to Nanking⁵⁰ regarding General Barr's functions sent by Mr. Lovett with my concurrence while I was in London and also read my telegram to Nanking in February⁵¹ on this same subject. These telegrams, I said, gave General Barr considerable latitude. I explained that I was trying to find a formula like this for the naval side of the problem. For example, I said, if a U. S. naval officer on board a Chinese ship should ask for instructions as to what he should do in action, he should be relieved. I pointed out that while we might be able to simplify the air side of the military operations it was difficult to know what could be done with the ground forces operations. I then asked General Wedemeyer to describe the set-up he had while in China.

General Wedemeyer explained that he had had a staff of 50 U. S. officers who worked on the staff level with General Ho Ying-chin, then Chinese Chief of Staff. He continued that he had had U. S. units of about 20 men with Chinese Army Group organizations and on down to divisions and units of 5 Americans with each combat regiment. In reply to my question regarding the withdrawal of such American units, General Wedemeyer said that they had been withdrawn at the time Chinese troops went into Indochina. When I referred to General Barr's recommendation that advisory teams be attached to selected Chinese Army Headquarters, General Wedemeyer pointed out that the Chinese had only 50 combat divisions and that U. S. observers would be needed with not more than 25 such divisions.

I observed that the important thing was to find out how to do this without "getting sucked in", since it was obviously the Chinese purpose so to involve the United States.

General Wedemeyer observed that two years ago the objectives of U. S. policy could have been achieved by such action and that one year ago a solution in north China could have been found through the use of U. S. advisers in that area, but that now there was no moral courage in the Chinese Government and it could not control its commanders. He stated that he would now hesitate to advise that U. S. advisers be placed with Chinese Army units as is being done in Greece.

⁵⁰ Telegram No. 1302, October 24, 1947, 5 p. m., to the Ambassador in China, *Foreign Relations*, 1947, vol. VII, p. 901.

⁵¹ Not found in Department files.

When I asked what difficulties would be encountered if one U. S. adviser were stationed with each Chinese Army Group, General Wedemeyer said that the difficulty was that they wouldn't take advice. He explained that when he was in China questions were sometimes referred all the way up to the Generalissimo and when such action was taken and when he discussed the matter with the Generalissimo, the latter issued orders and the advice was accepted. General Wedemeyer pointed out that the main thing was the problem of logistics with respect to food and equipment for the troops and that U. S. military personnel were not permitted to go into operational areas where they were needed. He added that he would, however, hesitate to advise such action now.

Mr. Butterworth observed that the sorry state of the Chinese Army was only a part of the problem and that he was not at all sure that U. S. military advisers constituted an adequate answer even to that part. The larger problem was the rate of loss by the Government of its prestige, authority and effectiveness of which the morale of the troops was but one aspect.

General Bradley pointed out that, while General Barr's recommendations perhaps represented the only way by which effective results might be achieved, it was not likely that we could now get effective results and that such a course of action would lead to the capture or killing of U. S. officers by the Chinese Communists.

I pointed out that we would have to accept this hazard and recalled that U. S. Marines had on several occasions during my mission to China been captured or killed, some of them while on hunting trips. I continued that the thing that concerned me was that the Chinese have long been intent on the U. S. going to war with the Soviet Union with the expectation that the U. S. would drag the Chinese Government out of its difficulties. I recalled that Chinese political leaders had said as much to me in 1946. I said that if we now set up a command relationship such as that which General Wedemeyer had with the Generalissimo this action would only serve to confirm this position.

General Wedemeyer observed that could now be done only at a great cost in personnel and U. S. prestige.

I stated that this would mean U. S. responsibility for the Chinese Government's military campaign and explained my own experience in China as follows: We had reached agreement on the reorganization of the Chinese armies in February 1946 following the Chinese agreement on the political side and I had returned to the United States in an effort to obtain approval for a loan to China. After 5 weeks I returned to find that the Generalissimo was charging me with responsibility for the Communist capture of Changchun and the Chinese Army commanders were blaming me for their lack of supplies. They

did this even though I had scoured the Pacific and the Aleutians for supplies, which ended up in storage in Hulutao while the Chinese soldiers were suffering from frozen feet. I had also differed with the Generalissimo with respect to getting replacements for the armies. He wanted to send new divisions into Manchuria while I had advised that he train replacements so that he would keep his good armies up to strength instead of allowing them to be dissipated. My advice on this point was not accepted and the things that have happened have been much as I predicted.

I expressed the opinion that it would be easy to help the Chinese Navy along the coast since that meant no real difficulties with respect to possible involvement and that we should be able to do something to assist the Chinese Air Force but that I did not know how to act on the ground side.

General Wedemeyer and General Bradley expressed doubt regarding the air phase of assistance and General Wedemeyer said that he would hesitate to go too far on the air side since the Chinese Air Force would kill more Chinese civilians than Communists. He explained that he was dubious about having U. S. personnel flying in Chinese planes and said that he had recently read an article in an American magazine describing U. S. pilots flying L-5s in some operations in China.

I pointed out that we could do something with regard to transport planes and could assist on the maintenance side and asked General Bradley what he would suggest.

General Bradley said that he would not place U. S. advisers with Chinese units as recommended by General Barr.

I said that I had thought that General Barr would act with freedom on his own judgment and without a directive and that he had seemed to understand this during our discussions prior to his departure for China.

When General Bradley suggested that General Barr might "go around", General Wedemeyer pointed out that General Barr could not go into operational areas and that none of the members of his Group could do so.

I then asked General Wedemeyer what his reaction was.

General Wedemeyer replied that he feared that the U. S. would be blamed for the final debacle and that he would not recommend that U. S. advisers be placed with Chinese units as recommended by General Barr. He added that a Joint Chiefs of Staff directive, which had been under consideration since February 7 and had been agreed upon on June 9,⁵² approved the use of U. S. advisers in such capacity but that he thought it unwise.

⁵² *Post*, p. 254.

Secretary Royall agreed with this view and said that he did not even think military supplies should be given to the Chinese Government. He continued that the recent telegrams from the U. S. Army Advisory Group had convinced him of the seriousness and hopelessness of the situation and of the necessity of the U. S. Government going all the way in if anything were to be accomplished. He said that the terms decided upon by the President to govern the \$125 million grants should help in having these funds spent properly.

General Wedemeyer said that he would go further than this since he was not sure that military equipment and funds would be used for the purposes intended. He added that he believed that U. S. aid should be supervised on the spot.

Mr. Butterworth pointed out that ECA would exercise close supervision of the economic aid and that this reference was presumably only to the \$125 million grants.

General Wedemeyer then stated that General Barr and his group should supervise getting military supplies under these grants on the way but not in operational areas. He explained that he felt this necessary to prevent such supplies going to warlords and thus contributing to regionalism in China. He believed that the U. S. Army Advisory Group should have representatives at the ports of delivery and should follow through to see that it got to the Chinese Government. He agreed with my suggestion that this would have to be done with the knowledge of the Chinese Government and said that the Generalissimo would accept this kind of supervision.

I pointed out that the Chinese would accept supervision in order to get the U. S. involved and that General Barr should keep his eye on the military supplies purchased from the \$125 million grants as much as possible. When General Wedemeyer suggested that the U. S. Army Advisory Group could watch the trucks transporting the supplies, I recalled that jeeps had a habit of walking off if unwatched for a few minutes.

Secretary Royall suggested that General Barr could see that the supplies were delivered to the National Government Army and that he could be furnished copies of the invoices submitted by the Chinese and see that military supplies were delivered to the National Government Army upon arrival in China.

I pointed out that this could not be done as a right under the legislation but that General Barr could arrange informally to find out where the supplies go.

Mr. Butterworth suggested that copies of documents and lists submitted by the Chinese, as well as shipping schedules, be sent to General Barr for his use in this connection. But he emphasized that this ques-

tion of supervision was one which was clearly "black and white" in that if the U. S. wished to ensure the proper end-use of military supplies it would be necessary to follow these supplies all the way to the fighting lines.

General Bradley pointed out that this had been found true by me and I added that Colonel Barrett ⁵³ had reported this to be true in the case of supplies landed at Hulutao, which were stored there and much of which never went forward where they were needed. I then asked if the Military Attaché ⁵⁴ could not act for General Barr in this general connection.

General Wedemeyer said that he could act for the Ambassador to see that the equipment was used properly.

Discussion followed in regard to the possible use of personnel of the Military Attaché's office stationed in localities such as Area Headquarters for the purpose of observing but it was agreed that this would be dangerous and General Wedemeyer pointed out that the Chinese would use this to try to draw the U. S. into the China situation.

I pointed out that the Chinese now wanted aid only if it were in considerable quantity and suggested that if personnel of the Military Attaché's office could report to General Barr, we might be able to get action.

General Wedemeyer said that a year ago this might have been possible but that recent telegrams indicated that the Generalissimo's power and authority had waned to the point where he could no longer exercise the control he formerly had.

I said that I thought it worthwhile to do what we could through General Barr to ensure that the military supplies got to the Chinese Army, with which view General Wedemeyer concurred. I also said that I was concerned about the air phase and believed that we should see that the Chinese had transport planes and were able to keep them going.

Mr. Butterworth pointed out that General McConnell ⁵⁵ had done this very skilfully when he was Chief of the Air Division at Nanking and went on to describe his operations and the manner in which he had ably assisted the Chinese. General Wedemeyer observed that General Thomas, ⁵⁶ the present Chief of the Air Division, was also doing an excellent job along these lines.

Secretary Royall interposed that the concrete problem was what he was to say the next day in the hearings before the Senate Appropriations Committee.

⁵³ Col. David D. Barrett, Assistant Military Attaché in China.

⁵⁴ Brig. Gen. Robert H. Soule.

⁵⁵ Brig. Gen. John P. McConnell.

⁵⁶ Brig. Gen. Charles E. Thomas.

I replied that we had taken the line of following the terms decided upon by the President and Mr. Butterworth added that we had also followed the line that the provision regarding the \$125 million grants was put in by the Senate and approved by the Congress. He continued that this was the legislative intent and that it was the view of Senators Vandenberg and Connally, as shown in the hearings attended by State Department representatives on the China aid program, that this sum should be given to the Chinese for spending by them on their own responsibility and at their own option and without the detailed supervision of ECA.

Secretary Royall said that the Committee was asking what was desired now.

General Bradley stated that, while the greater the supervision the better the expenditures of this money, such supervision was impractical and undesirable and that that was the answer.

I pointed out that the next move in such a case would be an extensive affair.

Secretary Royall said that the Committee could be informed that we would supervise the delivery of the military supplies to the National Government armies.

I said that the Army Advisory Group could follow up on such delivery and that legislation on this point was not required, a view concurred in by General Wedemeyer.

Secretary Royall observed that the proviso placing this aid in the same category as that to Greece and Turkey was not desired and asked what language should be suggested.

Mr. Butterworth replied that the President had decided upon the administrative terms governing the \$125 million grants and that they were now a part of the Senate Appropriations Committee's record and that all that was necessary, therefore, was to take out the proviso.

Mr. Butterworth went on to refer to the Joint Chiefs of Staff directive earlier in the discussion by General Wedemeyer and asked what should be done with this directive in the light of the decisions reached at this meeting.

General Wedemeyer observed that while the Joint Chiefs of Staff were aware of the military side of the situation they would not know the political implications thereof and Secretary Royall said that the Joint Chiefs of Staff should reconvene and reconsider this directive. General Bradley explained that he had not been present at the Joint Chiefs of Staff meeting at which this directive was approved and that he would take steps to arrange for reconsideration of the directive. General Wedemeyer pointed out that it should be noted that the great

feature of the directive was that it combined all the services into one group.

Secretary Royall concluded the discussion with the following summary of the decisions reached regarding the hearing before the Senate Appropriations Committee on June 12: "It is agreed then that General Wedemeyer and I tomorrow will say that we should take out the Greco-Turkish proviso, refer to the President's administrative terms and state that we intend to implement this part of the China Aid Act to as great an extent as possible without involvement by having the Army Advisory Group check on the deliveries of the military supplies from that end."⁵⁷

893.24/6-248

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, June 17, 1948.

DEAR MR. SECRETARY: You will recall that during our conference on June 7, at which Secretary Royall was present, there was handed to you a copy of a note, dated June 2, 1948 from the Chinese Ambassador in regard to Chinese planned expenditures of the \$125,000,000 grants authorized under Section 404(b) of the China Aid Act of 1948. The Chinese Ambassador enclosed with this note lists of items of military supplies and equipment to be procured in the United States for the Chinese Army, Air Force and Navy from these funds. He also listed certain officers of the Chinese armed forces who will assist the Chinese Embassy at Washington in the procurement of military supplies and requested that he be informed of the agency or agencies of the United States Government which these officers may approach and to which they may communicate the necessary information with a view to clarifying the technical requirements of China's armed forces.

It is the view of this Department that the request of the Chinese Ambassador should be granted. I am, therefore, asking the Foreign Liquidation Commissioner to designate certain officers whom the Chinese military representatives may approach in this connection. If you concur in such action, I should appreciate your designating the appropriate officers of the Departments of the Army, Navy and Air Force whom the Chinese representatives may approach in this regard and informing me accordingly in order that I may communicate their names to the Chinese Ambassador.

Faithfully yours,

G. C. MARSHALL

⁵⁷ Apparently these statements were made in Executive Session; the published record indicates no further appearance by Secretary Royall or General Wedemeyer.

893.24/6-2448 : Telegram

The Consul at Tientsin (Warner) to the Secretary of State

TIENTSIN, June 24, 1948—10 a. m.

[Received June 24—4:17 a. m.]

184. ReConGentel Nanking 303, June 5, repeated Dept as 154.⁵⁸ Marcel Leopold⁵⁹ inquired today if reply received from Embassy or Dept indicating whether or not there was possibility obtaining arms and ammunition from US in connection with barter deal for Bureau Consolidated Experts Technical Studies, Peiping.

Leopold indicated Mojzisek⁶⁰ unable make headway with Wellington Koo, Washington, and if no assistance gained thru ConGen, Tientsin, he proposes pursue firearms matter with Belgians, who have apparently evinced much interest.

ConGen would appreciate receiving Embassy and/or Dept views with indication as to possible reply if any which may be given Leopold letter to ConGen dated June 9, forwarded under despatch 66, June 10.⁵⁸

Sent Nanking as 341, repeated Dept 184.

WARNER

893.24/6-2548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1948—10 a. m.

[Received June 25—2:57 a. m.]

1145. [To Tientsin:] Central Government and Supreme Headquarters Nanking have sole authority in matters relating procurement of military material (urtel 341, June 24⁶¹). In view of [Aid?] act we feel you can not with any propriety act as communications channel or participate in any way in any transactions of private armament dealers. Smyth⁶² has been informed of all details of situation.

Sent Tientsin 118, repeated Department 1145.

STUART

893.50 Recovery/6-2848

The Secretary of State to the Chinese Ambassador (Koo)

WASHINGTON, June 28, 1948.

EXCELLENCY: I have the honor to inform you that, in accordance with the authorization contained in Section 404(b) of the China Aid

⁵⁸ Not printed.⁵⁹ Landlord of the Consulate General at Tientsin.⁶⁰ Oldrich R. Mojzisek, arms agent, Seattle.⁶¹ Repeated to the Department as telegram No. 184, *supra*.⁶² Robert L. Smyth, Consul General at Tientsin.

Act of 1948 (Title IV of the Foreign Assistance Act of 1948) and subject to the provisions of the Act appropriating funds thereunder, the Government of the United States is prepared, for the period of one year following the date of enactment of the Act, to extend to the Government of the Republic of China additional aid through grants in the amount of \$125,000,000 which have been appropriated for this purpose by the Congress in the Foreign Aid Appropriation Act of 1949. As stated in Section 404(b) of the China Aid Act of 1948, this aid is to be extended on such terms as the President of the United States may determine and without regard to the provisions of the Economic Cooperation Act of 1948.

Pursuant to the authorization under the Act, the President of the United States has determined that the extension of additional aid under these grants shall be governed by the following terms:

1. The Government of the Republic of China shall, through its authorized representatives in Washington, present from time to time to the Secretary of State formal written requests for payment with respect to commodities or services procured or to be procured by it, supported by invoices, contracts or other appropriate documentation evidencing the transactions.

2. The Secretary of State shall upon the receipt of such requests, supported by invoices, contracts or other appropriate documentation evidencing the transactions, authorize the Secretary of the Treasury to make the appropriate payments to the Government of the Republic of China.

3. The Government of the Republic of China shall furnish the Secretary of State monthly reports showing in as much detail as practicable the purposes for which expenditures have been made out of funds provided to it under the authority of Section 404(b) of the China Aid Act of 1948.

I should appreciate receiving notification of your Government's agreement to the terms set forth above for the extension of this additional aid under Section 404(b) of the China Aid Act of 1948.⁶³ Upon the receipt of a note indicating your Government's acceptance of these terms, the implementation of this Section of the Act may be promptly undertaken.

Accept [etc.]

For the Secretary of State:

ROBERT A. LOVETT

Under Secretary

⁶³ The Chinese Ambassador in a note of July 1 concurred in the understanding set forth above. For text of note, see *United States Relations With China*, p. 948.

893.50 Recovery/6-2848

*The Chairman of the Senate Committee on Appropriations (Bridges)
to the Secretary of State*

[WASHINGTON,] June 28, 1948.

MY DEAR MR. SECRETARY: Because of the urgent need of the Chinese Government for military supplies and economic aid, and the vital interest of the American people in the maintenance of Chinese independence, the Congress of the United States, on April 3, 1948, authorized and directed the Reconstruction Finance Corporation to advance \$50,000,000 for the purposes of the China Aid Act.

From April 3, 1948 to the present day, the Department of State has failed to use any portion of this sum for the purchase of military supplies by the Chinese Government. There has been a general laxness throughout Government in freeing the advances for China aid to be used by the Chinese Government. Although the advance of the Reconstruction Finance Corporation for European recovery was made available in April, the funds for China military aid, which were provided in the same legislation, were not released until the middle of June. Moreover, none of this money has been expended to aid China since its expenditure was authorized.

The facts are as follows:

The China Aid Act passed by the Congress on April 3, 1948, authorized, in Section 404(b), appropriation of a sum not to exceed \$125,000,000 for additional (military) aid to China through grants "on such terms as the President may determine and without regard to the provisions of the Economic Cooperation Act of 1948."

In Section 406 of the same act the Reconstruction Finance Corporation was authorized and directed to make advances, not to exceed in the aggregate \$50,000,000 to carry out the provisions of the China Aid Act of 1948, in such manner and in such amounts as the President shall determine.

This sum of \$50,000,000 was intended to cover advances upon the economic and military aid, pending an appropriation by Congress. On April 5, 1948, officials of the State Department informed Chinese officials that of this sum \$36,500,000 would be for the economic aid program and \$13,500,000 for the special (military) aid.

Since April 5, 1948, the Chinese Government has repeatedly attempted to obtain from the Department of State a statement of the necessary procedure for utilizing the \$13,500,000, as well as the total sum of \$125,000,000. No reply has yet been given by the Department of State, in spite of the fact that on June 10th at the open hearing of the Senate Appropriations Committee, the Assistant Secretary of State, Mr. Thorp, presented to the Committee a letter dated June 2, 1948, outlining the procedure for the utilization of the special aid fund. (A copy of the letter of the President is attached hereto.)

Because the Department of State and other agencies of the Government have delayed in making these funds available for expenditure, the Chinese Government for nearly three months has been prevented from utilizing the military aid authorized by the Congress on April 3.

In view of the extremely serious military situation in China, where Chinese Government armies with insufficient supplies are being attacked by more than 2,000,000 well-armed Communists, the delay of the Department of State in this matter is clearly contrary to the vital interests of the American people.

It is my desire that you furnish to the Senate Committee on Appropriations a full explanation of the slow action by the Department of State in this very urgent situation. The Committee would like assurance, also, that immediate action will be taken to carry out the wishes of Congress that were expressed in the enactment of Public Law 472 last April.

Sincerely yours,

STYLES BRIDGES

893.50 Recovery/6-2848

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Freeman)

[WASHINGTON,] June 29, 1948.

Mr. Tsui called this afternoon in response to our request and I handed him the original and one copy of the note dated June 28, 1948 and signed by the Under Secretary outlining the President's terms for the disbursement of the \$125 million grants in aid authorized in Section 404(b) of the China Aid Act of 1948. I also handed Mr. Tsui a draft in duplicate of a suggested note (copy attached)⁶⁵ which, I stated, the Chinese Embassy might possibly wish to use in replying to the Department's note.

Prior to handing the note to Mr. Tsui, I explained to him that at 12:45 p. m., immediately on receipt of the signed note from the Under Secretary's office, Mr. Sprouse had attempted to get in touch with both Mr. Tsui and Minister Tan by telephone but without success. I stated that Mr. Sprouse had left an urgent request at the Chinese Embassy for Mr. Tsui or Minister Tan to call Mr. Sprouse or myself, but that having received no word at 3:30 p. m. I called Mr. Tsui and informed him that the note had been signed and was ready for delivery. (Mr. Tsui arrived at the Department at 4:00 p. m.)

Occasion was taken to inform Mr. Tsui that, when formal written requests were made by the Chinese Embassy for disbursement of funds under these grants, it would be appreciated by the Department if such

⁶⁵ Not printed.

requests were made in quintuplicate. Mr. Tsui assured me that this would be done.

I also informed Mr. Tsui that the Department was planning to instruct the Embassy in Nanking by telegraph⁶⁶ to make a copy of the note available to the Chinese Ministry of Foreign Affairs.

893.24/6-2548 : Telegram

The Secretary of State to the Consul General at Tientsin (Smyth)

WASHINGTON, July 1, 1948—3 p. m.

145. View expressed Nanking's tel. 118 to Tientsin repeated Dept at 1145, June 25 concurred in by Dept. (Sent Tientsin as 145, repeated Nanking as 966.)

MARSHALL

893.50 Recovery/6-2848

The Secretary of State to the Chairman of the Senate Committee on Appropriations (Bridges)

WASHINGTON, July 1, 1948.

MY DEAR SENATOR BRIDGES: The receipt is acknowledged of your letter of June 28, 1948 in regard to the extension of aid to China as authorized by Public Law 472, in which you ask for an "explanation of the slow action by the Department of State" and request assurance that immediate action will be taken to carry out the wishes of the Congress as expressed in the enactment of Public Law 472.

The China Aid Act of 1948 (Title IV of the Foreign Assistance Act of 1948) authorized the appropriation of \$463,000,000 for assistance to China to remain available for obligation for the period of one year. Of this total \$338,000,000 was authorized to be appropriated for economic type assistance, which would be administered by the Administrator for Economic Cooperation. The sum of \$125,000,000 was authorized to be appropriated for additional aid to China through grants, on such terms as the President might determine and without regard to the provisions of the Economic Cooperation Act of 1948.

On April 30, 1948, after consultation with the Administrator for Economic Cooperation and subsequent negotiation with Chinese Government representatives, the Secretary of State exchanged notes with the Chinese Ambassador⁶⁷ which until July 3, 1948 would provide a legal basis for the implementation of Section 404(a) of the China

⁶⁶ Telegram No. 956, June 29, 8 p. m., to the Ambassador in China, not printed.

⁶⁷ See Department of State *Bulletin*, May 16, 1948, pp. 647-648. Cf. also telegram No. 843, May 10, 3 p. m., from the Ambassador in China, p. 515.

Aid Act of 1948. Prior to this exchange of notes, the Acting Secretary of State addressed a letter to the Director of the Bureau of the Budget recommending that the \$50,000,000 advance by the Reconstruction Finance Corporation authorized under Section 406 of the China Aid Act of 1948 be divided as follows: \$36,500,000 to the Administrator for Economic Cooperation to provide initial economic assistance to China and \$13,500,000 to be reserved as part of the additional aid through grants to the Chinese Government to be transferred in accordance with the terms decided upon by the President.

Accordingly, \$36,500,000 has been made available to the Administrator for Economic Cooperation for use in the program of economic assistance. Most of these funds have been committed for commodities which have either arrived in China or are in the process of being shipped to China.

Following detailed discussion by representatives of the Bureau of the Budget, the Treasury Department and the Department of State of the question of the terms to govern the transfer of the funds under the \$125,000,000 grants in additional aid authorized in Section 404(b) of the China Aid Act of 1948, the Secretary of State submitted a memorandum dated May 14, 1948 to the President in which he recommended that the President delegate his powers under Section 404(b) of the Act to the Secretary of the Treasury. On May 18 the Under Secretary of State forwarded a letter to the Director of the Bureau of the Budget⁶⁸ enclosing a draft letter of allocation setting forth these terms and asking for Presidential approval thereof.

During the hearings on the China Aid Act of 1948 before the House Appropriations Committee, members of the Committee indicated to representatives of the Department of State and the Economic Cooperation Administration concern over what was regarded as a lack of adequate control of the expenditure of the \$125,000,000 grants to be made available to the Chinese Government in accordance with the provisions of the China Aid Act of 1948. On May 24, 1948 the Committee in executive session asked the Under Secretary of State for a statement of the arrangements to be prescribed by the President for the transfer of these \$125,000,000 grants to the Chinese Government. Statements by members of the Committee indicated that the terms which had been set forth in the draft letter of allocation forwarded to the Director of the Bureau of the Budget by the Under Secretary of State on May 18 would not conform to the wishes of the Committee in this respect. The Bureau of the Budget, therefore, in consultation with the Department of State, revised the terms contained in the draft letter of allocation and forwarded the revised terms to the Chairman of the House

⁶⁸ Not printed.

Appropriations Committee in a letter dated May 26, 1948. The Chairman was informed that the President had not yet issued any determination of the terms for these grants and that no payments had yet been authorized from the advances made available for this purpose under Section 406 of the China Aid Act of 1948. He was also informed that the arrangements presently contemplated included procedures which were set forth in the letter.

Under date of June 2, 1948 the President addressed a letter to the Secretary of State⁶⁹ outlining the procedures under which the \$125,000,000 grants authorized in Section 404(b) of the China Aid Act of 1948 were to be made available to the Chinese Government and stating that the Secretary of the Treasury had been informed of these procedures and that an allocation of \$13,500,000 had been made to him to carry out the provisions of Section 404(b) of the China Aid Act of 1948.

The Department of State had already prepared a note to the Chinese Ambassador communicating to him the above-mentioned terms and was on the verge of transmitting this note when indications were received that the House of Representatives was considering a Foreign Aid Appropriation Bill which contained a proviso that the administration of the China aid program conform with the objectives of assistance to Greece and Turkey. This would have required the imposition of terms different from those called for in the enabling legislation and would thus have made impossible the use of the terms decided upon by the President, as set forth in his letter of June 2, 1948 to the Secretary of State. On June 4, 1948 the House of Representatives passed the Foreign Aid Appropriation Bill (H. R. 6801) containing the above-described proviso, reducing the total amount of aid for China from \$463,000,000 to \$400,000,000 and making no provision for an earmark of \$125,000,000 for additional aid through grants. The Department of State did not, therefore, consider that it could communicate terms to the Chinese Government regarding these \$125,000,000 grants which would be clearly inapplicable and inappropriate in the light of the action of the House of Representatives. Consequently, further action in this regard was held in abeyance pending the passage of legislation by the Congress appropriating funds for implementation of the China Aid Act of 1948.

The views of the Department on the reductions in the estimates and on the proposed controls are contained in the letter of June 10, 1948 addressed to you by the Under Secretary of State.⁷⁰

On June 15, 1948 the Senate approved certain amendments to the Foreign Aid Appropriation Bill, 1949, one of which removed the

⁶⁹ *United States Relations With China*, p. 946.

⁷⁰ *Economic Cooperation Administration*, p. 551.

Greek-Turkey proviso contained in the House Bill and thus made the \$125,000,000 grants available in accordance with the terms of the enabling legislation. On June 19, 1948 the Foreign Aid Appropriation Bill, 1949, was sent to Conference. The Conference Report shows that the total amount of aid to China was reduced from \$463,000,000 to \$400,000,000, that the Greek-Turkey proviso was removed from the Bill and that the \$125,000,000 grants were thus to be made available to China in accordance with Section 404(b) of the China Aid Act of 1948. The Foreign Aid Appropriation Act, 1949, was then passed by the Congress on the same day.

The President signed the Foreign Aid Appropriation Act, 1949, on June 28, 1948. On the following day, the Department of State forwarded a note, dated June 28, 1948, to the Chinese Ambassador communicating the terms prescribed by the President governing the transfer of the \$125,000,000 grants under Section 404(b) of the China Aid Act of 1948 and informing him that implementation of this Section of the Act would be promptly undertaken upon the receipt of a note indicating the Chinese Government's agreement to these terms. A copy of this note is attached for your information.

At the same time the Department of State forwarded copies of this note to the Secretary of the Treasury, the Secretary of Defense and the Director of the Bureau of the Budget. In the letter⁷¹ transmitting a copy of this note, the Director of the Bureau of the Budget was asked to take the necessary action to have allocated to the Secretary of the Treasury the funds authorized under Section 404(b) of the China Aid Act of 1948 and appropriated by the Congress in the Foreign Aid Appropriation Act, 1949.

I am certain that you will recognize from the foregoing description of the circumstances relating to the \$125,000,000 grants under the China Aid Act of 1948 that the Department of State has taken and is taking all possible steps to carry out the wishes of the Congress as expressed in the enactment of the China Aid Act of 1948 and the Foreign Aid Appropriation Act, 1949.

Sincerely yours,

For the Secretary of State:
CHARLES E. BOHLEN
Counselor

893.50 Recovery/7-2848

*The Chairmen of the Senate and House Appropriations Committees
(Bridges and Taber) to President Truman*

WASHINGTON, July 1, 1948.

DEAR MR. PRESIDENT: During the hearings on China aid before the Senate and House Committees on Appropriations this spring

⁷¹ Not printed.

testimony was taken in executive session on the military needs of China. General Albert C. Wedemeyer, appearing with Secretary of the Army Kenneth C. Royall, made certain proposals for the expenditure of \$125,000,000 for military requirements. The Congress has subsequently voted appropriations of \$125,000,000 in the Foreign Aid Appropriation Act.

During the Conference between the Senate and House Conferees on the bill it was the unanimous decision that the Chairmen of the Committees should communicate with you and express the desire that the Administration check the expenditure of this \$125,000,000 very carefully. There was a clear expression in the Conference of a desire that this money should be matched to the military requirements of China in accordance with the general proposals made by Secretary Royall and General Wedemeyer.

Respectfully yours,

STYLES BRIDGES, *Chairman,*
Senate Committee on Appropriations
JOHN TABER, *Chairman,*
House Committee on Appropriations

893.24/6-248

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Ambassador's note of June 2, 1948, listing the names of Chinese military officers who will assist the Chinese Embassy in the procurement of military supplies for the Chinese armed forces and asking that he be informed of the agency or agencies of the United States Government which these officers may approach and to which they may furnish the necessary information with a view to clarifying the technical requirements of China's armed forces.

A copy of the Ambassador's note of June 2, 1948, was forwarded to the Secretary of Defense with the request that he designate certain officers of the National Military Establishment whom the Chinese military officers may approach and to whom they may furnish the necessary information along the lines above described. The following officers of the National Military Establishment have now been designated for this purpose:

Department of the Army:

Lieutenant Colonel Malcolm F. Gilchrist, Jr., Plans and Operations Division.

Lieutenant Colonel Charles I. Davis, Logistics Division.

Lieutenant Colonel Francis G. Hall, Logistics Division.

Department of the Navy:

Captain M. M. Dupre, Jr., USN, Special Assistant to the Deputy Chief, Naval Operations (Logistics).

Department of the Air Force:

Colonel Raymond F. Rudell, Directorate, Plans and Operations.

Major David F. MacGhee, Directorate, Plans and Operations.

Pursuant to instructions from the Secretary of State, the Foreign Liquidation Commissioner has designated Mr. Carroll M. Meigs, Director, General Disposals Division, as the officer whom the Chinese representatives should approach in regard to purchases of surplus property in this connection.

It is suggested that the Ambassador request the Chinese military officers listed in his note under reference to approach the above-named officers of the United States Government agencies indicated with a view to carrying out the desired functions.

WASHINGTON, July 2, 1948.

893.50 Recovery/7-948

*Memorandum of Conversation, by the Under Secretary of State
(Lovett)*

[WASHINGTON,] July 9, 1948.

Participants: The Honorable Walter H. Judd, Member of the House of Representatives
Mr. Lovett, Under Secretary of State
Mr. Butterworth, Director for Far Eastern Affairs
Mr. Sprouse, CA

Dr. Judd called on me this afternoon by appointment to discuss the problem of procurement by the Chinese under the \$125 million grants authorized by Section 404 (b) of the China Aid Act of 1948.

Dr. Judd gave a lengthy explanation of his attempts to include a Greek-Turkey proviso in the China Aid Act in order to ensure that the Chinese would spend wisely the funds appropriated for military type aid. He referred several times to obstacles which he alleged had been placed by the State Department in the way of effective U. S. Army Advisory Group assistance to the Chinese Government in drawing up plans for expenditure of the \$125 million grants. Both Mr. Butterworth and I assured him that such was not the case and that the Army Advisory Group had in fact assisted the Chinese in drawing up their plans for expenditure of these funds. Dr. Judd then

described his discussion of the matter with Secretary Royall and explained that it was his (Dr. Judd's) desire that the Department of the Army be permitted to assist the Chinese in procurement of military matériel along the lines authorized in the Greek-Turkey Assistance Act. He said that the Department of the Army had forwarded him a memorandum in which were set forth the terms decided upon by the President to govern the extension of aid to China through these grants, which had been communicated by the Department of State to the Chinese Embassy. He pointed out that under these terms it would not be possible to follow the procedure which he felt to be desirable.

I described the history of these terms and the legislative history of the China Aid Act. I explained that the Department of State had recommended that the Treasury Department administer these funds, pointing out that the legislative intent regarding the Chinese use of the \$125 million grants had been made clear in the debate in the Senate on this subject and in the Senate Foreign Relations Committee Report on the China aid program. In reply to Dr. Judd's query regarding the role of the State Department in screening Chinese requests for withdrawals from these grants, I emphasized that the Department, in accordance with the President's terms, would merely check the supporting documents accompanying Chinese requests to see that they tallied with the total of the requests submitted.

I further stated that subsequent to receiving Dr. Judd's call I had had the Legal Division of the Department look into the possibilities of a procedure which would permit the National Military Establishment to go into procurement for the Chinese and thus meet Dr. Judd's wishes in this matter. I said that the Legal Division had come up with two possibilities, somewhat complicated in their nature, and that an officer of the Bureau of the Budget had indicated informally that it might be difficult for the President to decide upon terms which would incorporate arrangements along the lines of the Greek-Turkey Assistance Act, since in both the enabling legislation and the appropriation act the Congress had eliminated proposed Greek-Turkey provisos. I informed Dr. Judd that the Department desired to do what it could to be of assistance in this matter and that the Department would now take up the matter formally with the Bureau of the Budget and the National Military Establishment with a view to ascertaining what could be done in this regard.

Dr. Judd stated that this procedure would not be contrary to the legislative intent since Senator Vandenberg had informed him that the elimination of the Greek-Turkey proviso had been for the purpose of avoiding underwriting the Chinese military campaign and involve-

ment in the Chinese civil war and that the elimination of this proviso would not prevent the procurement procedures from following those employed for Greece and Turkey. Dr. Judd then suggested that it might be advisable to have the Chinese submit a request that the Army assist them in procurement of desired military matériel, following the receipt of which the Department of State, the Bureau of the Budget and the Department of the Army could discuss the matter and arrive at some solution. He further stated that it might be necessary to approach the General Accounting Office in this connection and that he would be available during the next week if his assistance were necessary. It was agreed that it would be preferable for the matter to be worked out within the Government prior to giving any indication to the Chinese of this possibility.

S93.50 Recovery/7-1248

*Memorandum of Conversation, by the Assistant Chief of the Division
of Chinese Affairs (Freeman)*

[WASHINGTON,] July 12, 1948.

Participants: Dr. Tan Shao-hua, Chinese Minister
Mr. Butterworth, FE
Mr. Freeman, CA

Dr. Tan opened the conversation by referring to the \$125 million grants under Section 404(b) of the China Aid Act and stated that there were several contracts with the FLC which had been completed or were nearing completion and which the Chinese Embassy would submit to the Department shortly. He stated, however, that the Chinese military personnel, including representatives of the army, air force, signal corps and navy, had expressed dissatisfaction over the methods of procurement as envisaged under the President's terms. In the first place, he said, priorities had not been established for China as in the case of Greece and Turkey and the representatives of the U. S. Army with whom the Chinese had been dealing did not know in what category China should be put. In the second place, Dr. Tan continued, there apparently was almost no surplus matériel available for purchase.

Mr. Butterworth explained that the Congress had attached a rider to the Independent Agencies Appropriation Act ⁷² prohibiting the declaration of additional surplus stocks within the zone of the interior which included the continental United States and Hawaii. He pointed out that this in effect left only the Pacific area and that the majority of the surplus in this area had already been turned over to China.

⁷² Approved June 30, 1948; 62 Stat. 1187.

Dr. Tan indicated his understanding of this situation but emphasized that China was particularly concerned with the time factor in procuring military supplies. He stated that orders placed with commercial firms required a period of 4 to 5 months for completion to which had to be added shipping time to China. In certain cases, he added, commercial firms would have to retool completely before beginning production which would add additional time. In order to solve these problems, Dr. Tan continued, the question had been broached informally to the U. S. Army of requesting the latter to undertake all procurement of military supplies and equipment in China's behalf. He stated that the Army representatives had tentatively and informally indicated their willingness to assume this function if the legality of such a procedure under the President's terms could be assured and if the State Department gave its approval. The Army had mentioned, he said, that "certain items" of matériel would, however, have to be purchased by the Chinese under direct contract with commercial firms. In this connection Dr. Tan stated that Ambassador Koo was particularly anxious to do a good job in the carrying out of the procurement program under the \$125 million grants and was therefore desirous of exploring every possible avenue in an attempt to jump the priority and surplus hurdles.

Mr. Butterworth stated that the Department was anxious to assist the Chinese in every way possible in their procurement problems, but he queried if, as he had indicated previously, there were very little surplus stocks available, whether the great majority of supplies required by the Chinese would not fall under the category of "certain items" to be purchased direct from commercial firms; and, in this event, what the function of the Army would be in undertaking procurement for the Chinese. In reply Dr. Tan suggested that the Army might possibly "lend" the Chinese matériel from available stocks to be replaced as soon as production could be completed, the procedure to be similar to that followed in the purchase of 6 million rounds of ammunition through Olin Industries. Dr. Tan added that whether the Chinese would pay original procurement cost or replacement cost could be determined by discussion.

Mr. Butterworth pointed out that contacts between the Chinese and our armed services had been established for the specific purpose of working out such arrangements and that similar procedures could undoubtedly be established in the future. Dr. Tan indicated that this type of arrangement still meant that the Chinese must deal directly with the commercial firms involved, which he stated they were reluctant to do, with the matériel being loaned by the Army to the firms. He explained that it was extremely desirable that the Chinese avoid

concluding contracts direct with commercial firms as the unit cost to the Chinese would undoubtedly be greater in this way than if the Army were acting for the Chinese.

Mr. Butterworth suggested that the Army might include the Chinese requirements in its own orders by ordering, for example, 1,100,000 of a certain item with 100,000 earmarked for the Chinese. Dr. Tan indicated that this procedure would still not solve the time factor and would still require several months before production could be completed and delivery to China effected.

Mr. Butterworth assured Dr. Tan that he would discuss the problem with the Army at the earliest opportunity, with particular reference to the possibility of the Army's undertaking the procurement function for the Chinese, and that he would inform Dr. Tan of the results.

893.50 Recovery/7-1648

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse) to the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] July 16, 1948.

A meeting was held in the Division of Chinese Affairs on July 14 to discuss means by which this Government could expedite assistance to China under the \$125,000,000 grants, with officers from the Army and Air Force in attendance. There appear to be two main problems which will have to be resolved before the military services can materially assist the Chinese in their purchasing program. These are: 1) The establishment of a legal means by which transfer of matériel from military stocks can be effected and 2) the establishment of a priority for China which will enable it to receive a share of the limited supplies available for foreign military aid. These difficulties will be considered in order in the following paragraphs:

(1) The fact that stocks now surplus in the Pacific are being declared to the Chinese and the existence of recently enacted laws making it impossible for the armed services to declare material in the United States surplus, definitely limit the possibilities of additional transfers being made from surplus. The armed forces believe they have no legal justification for making transfers similar to those being made to Greece and Turkey where supplies are transferred from non-surplus stocks upon reimbursement at procurement costs. Mr. Eichholz of the Department's Legal staff indicated that section 404(b) of the China Aid Act 1948 exempted the \$125,000,000 grants from the restrictions of the Economic Cooperation Act of 1948 but that it might be interpreted that they could be entitled to the benefits of that act

(Section 113a). He stated that this might provide the desired authorization. It was agreed that Mr. Eichholz would meet with legal representatives of the Budget Bureau and the Services and if all were in accord with respect to the existence under present legislation of this authorization the Budget Bureau would then be asked to obtain an adjustment of the Presidential terms to permit such transfers.

(2) Army and Air Force officers indicated that should a legal vehicle be found for the transfer of military stocks, the availability of such for transfer to China would depend on the establishment of a priority for that country. It was noted that National Security Council document 14, approved by the Cabinet July 1, states that Western Europe shall receive first priority for the receipt of military aid. Army officers pointed out that it was probable that all available matériel would be needed to meet the requests of the Western European countries, and that in any case many months would elapse before the extent of their needs would be known. Similarly, the military services would not know the extent of their own requirements pending determination of troop basis figures now being prepared. It was agreed that it would be impracticable to delay action on Chinese requests until the above determinations had been made. It was likewise agreed that the SANAC study on priority now being prepared offered no solution, since it is not yet agreed upon and China will in all probability be placed after the countries of Western Europe and the Middle East. It was concluded that if China is to receive any material from military stocks, a special priority will have to be established to govern the expenditure of the \$125,000,000 grants. Officers of Plans and Operations, Army indicated that a letter on the question of priorities had been drafted and if it is approved by Mr. Royall should reach the Department of State by Friday, July 16.

It was noted that when the Army's views had been received they would be considered by the Policy Committee on Arms and Armaments which would make appropriate recommendations to the Secretary on the question of priority.

893.50 Recovery/7-2048

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] July 20, 1948.

Participants: Dr. Tan Shao-hwa, Chinese Minister
Mr. Sprouse, CA

During the course of a telephone conversation today, Minister Tan referred to the conversation that he had had with Mr. Butterworth

in regard to the possibility of the United States Army going into procurement for the Chinese in connection with their expenditures of the \$125 million grants, and to a similar conversation which he said Ambassador Koo had had with the Secretary of State. Minister Tan stated that he hoped that it would be possible within the framework of the China Aid Act and the powers of the President for the U. S. Army to procure military supplies for the Chinese. He also expressed the hope that it would be possible to purchase surplus stocks and that the question of priority for Chinese purchases would be favorably acted upon. Minister Tan said that, as had been indicated to him, it was chiefly a legal question with reference to whether the Army could be reimbursed for transfers of its stocks or whether the money would be returned to the Treasury Department.

In reply to his query regarding the status of this matter, I informed Minister Tan that this matter was being looked into and that every effort was being made to find some solution.

893.50 Recovery/7-2148

Memorandum by the Secretary of State to President Truman

WASHINGTON, July 21, 1948.

I have just received a copy of a letter dated July 1, 1948 addressed to you jointly by Senator Bridges and Mr. Taber, chairmen of the Senate and House Committees on Appropriations, respectively. In this letter, Senator Bridges and Mr. Taber express the desire that the Administration carefully check the expenditure of the 125 million dollars authorized for grants to China under section 404(b) of the China Aid Act, with a view to assuring that those funds are matched to the military requirements of China.

The legislative history of the China Aid Act indicates a strong desire on the part of the Congress that the United States Government should not be put in the position of appearing to underwrite the military efforts of the Chinese Government. It was rather the intention to make these funds available for such purposes as the Chinese Government, on its own responsibility, might request. It was nevertheless clearly anticipated that the Chinese Government would probably wish to use these funds for the procurement of military supplies. In its report on the Foreign Aid Appropriation Act of 1949, the Senate Committee on Appropriations stated (page 13): "The Committee recommends the appropriation of 125 million dollars with the intent that care shall be exercised to hold expenditures to military purposes."

There is enclosed a copy of a letter dated July 16, 1948 addressed by the Under Secretary to the Director of the Bureau of the Budget ⁷³

⁷³ Not found in Department files.

requesting that certain changes be made in your letter of June 2, 1948 addressed to me and to the Secretary of the Treasury ⁷⁴ governing the procedure to be followed in making grants under section 404(b) of the China Aid Act of 1948. Among the changes suggested in that letter was one to make it clear that United States Government agency appropriations might be reimbursed from the appropriation authorized by that section. This should permit the Chinese to secure military supplies from stocks on hand or from procurement on its behalf by the National Defense Establishment.

In the light of the foregoing circumstances, I respectfully suggest that in order to comply with the spirit of the China Aid Act of 1948 and with the desires of the chairmen of the Congressional Committees on Appropriations, the Secretary of Defense be requested by you to do everything possible to make available to the Chinese Government, from existing stocks or through supplemental procurement, such military supplies as that Government may request under the provisions of section 404(b) of the China Aid Act of 1948. I have attached a suggested draft of a letter to the Secretary of Defense ⁷⁵ for this purpose.

It is my understanding that the estimates of allocations of funds under this legislation which were presented by the Secretary of the Army and General Wedemeyer in executive sessions of the Congressional Committees on Appropriations are based upon proposals made by the Chinese Ministry of National Defense and concurred in by the United States Military Advisory Group in China. It would, therefore, be appropriate for the National Defense Establishment to continue to assist the Chinese Government in this regard.

800.24/7-2448

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, 24 July 1948.

DEAR MR. SECRETARY: Reference is made to State Department secret document PCA/PD-11, dated August 20, 1947,⁷⁵ subject: "Policy with respect to Relative Priorities for Receipt of U. S. Military Supplies", which has been furnished to the National Military Establishment for guidance.

As you know, since the publication of referenced document, governmental commitments have come into being in connection with aid to

⁷⁴ For letter to the Secretary of State, see p. 79; for letter to the Secretary of the Treasury, see *United States Relations With China*, p. 947.

⁷⁵ Not printed.

China, Iran, and Argentina. As a result, the National Military Establishment is faced with the responsibility of implementing these programs in addition to the current programs in connection with Greece and Turkey.

In view of the civilian personnel ceilings imposed by the Byrd Law ⁷⁶ on the National Military Establishment, it is not possible to increase the employment of civilian personnel to the number necessary for implementing all foreign aid programs simultaneously. Therefore, it is necessary to continue adhering to a system of priorities for implementing foreign aid programs. At the present time the capacity of the Department of the Army for handling foreign aid programs simultaneously is fully absorbed by the programs for Greece and Turkey.

Accordingly, I request that the Department of the Army be furnished with a current revision of the State Department document PCA/PD-11 to reflect priorities for implementation of current and imminent foreign aid programs, particularly with respect to Greece, Turkey, China, Iran, and Argentina.

Sincerely yours,

KENNETH C. ROYALL

893.24/7-2648

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[Extract]

[WASHINGTON,] July 26, 1948.

A Departmental Committee on Grants to China, composed of representatives of the concerned offices and divisions of the Department, was established and held its first meeting on July 7. The terms of reference for the Committee are to decide upon and implement the procedures with respect to disbursements to the Chinese Government authorized under Section 404(b) of the China Aid Act of 1948. The Committee held its second meeting on July 23 immediately after the submission by the Chinese on that day of their first requests for withdrawals from the \$125 million grants.

A summary of these requests is attached (Tab A). Request No. 1 covers the purchase of bombs and ammunition from OFLC and shipping and insurance charges thereon. Request No. 2 covers the purchase of aircraft engines from a commercial supplier and shipping and insurance charges thereon. Request No. 3 covers petroleum products and containers for the Chinese Air Force.

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⁷⁶ Sec. 14 of the Federal Employees Pay Act of 1946, approved May 24, 1946; 60 Stat. 219.

[Annex]

*Tab A—First Chinese Requests in Summary*SUMMARY OF CHINESE REQUESTS FOR WITHDRAWALS FROM THE \$125 MILLION
GRANTS UNDER SECTION 404(b) OF THE CHINA AID ACT OF 1948

<i>Type of Commodities and/or Services</i>	<i>Supporting Documents</i>	<i>Amount</i>
1. Bombs and ammunition	Contract with OFLC	\$ 464,351.17
Shipping	Invoices:	
	Montreal Shipping Co.	443,532.72
	Barry & Powell Co.	2,294.75
	Montreal Shipping Co.	39,742.13
	Total—	\$ 949,920.77
2. Aircraft engines	Babb Company—Contract	\$ 287,500.00
Shipping	Invoices:	
	C. J. Hendry Co.	5,182.84
	Barry & Powell Co.	20.73
	Aircraft Components Corporation	2,512.84
	Barry & Powell Co.	10.73
	Total—	\$ 295,227.14
3. Petroleum Products and Containers	Contracts:	
	Standard-Vacuum Oil Co.—	\$ 436,204.43
	minus 1 percent discount	4,362.04
	China Petroleum Co., Ltd., agents for Sterns, Inc.	2,313,042.00
	minus 1 percent discount	23,130.42
	Texas Company—	951,597.07
	minus 1 percent discount	9,515.97
	Contract Total—	\$3,700,843.50
	minus 1 percent discount	37,008.43
	Net Total	\$3,663,835.07
	Total of the 3 Chinese Requests—	\$4,908,982.98

Executive Secretariat Files : NSC 22

*Note by Rear Admiral Sidney W. Souers, Executive Secretary to the
National Security Council*

NSC 22

[WASHINGTON,] July 26, 1948.

POSSIBLE COURSES OF ACTION FOR THE U. S. WITH RESPECT TO THE
CRITICAL SITUATION IN CHINA

At the request of the Secretary of the Army the enclosed paper assessing the current critical situation in China and outlining alternative courses of action is circulated herewith to the National Security Council for discussion at its next meeting.

SIDNEY W. SOUERS

[Enclosure]

Possible Courses of Action for the U. S. With Respect to the Critical Situation in China

PROBLEM

1. To assess the critical situation in China in light of current events; and state the critical questions facing the U. S. Government with possible alternative courses of action.

ANALYSIS

2. *a.* The broad objectives of current U. S. policy toward China are understood to be:

(1) Recognition of the National Government as the legal government of a sovereign China.

(2) China should eliminate, by political agreement, conflict of armed forces within her territories as a Chinese responsibility to the United Nations in ameliorating the threat to world stability and peace.

(3) China should undertake steps to broaden the base of the National Government to make it truly representative of the Chinese people in achieving the goal of a united and democratic China.

(4) The U. S. Government desires to assist China as she moves toward peace, unity and genuinely democratic government.

(5) The U. S. Government desires to assist China in the development of an effective Army and Navy, so limited in size as not to become an undue burden on the Chinese economy, and to this end maintains advisory missions. This assistance, however, will not extend to direct participation in the Chinese civil war.

b. On 9 June 1947 the Joint Chiefs of Staff expressed the following views:

"It is the opinion of the Joint Chiefs of Staff that, from the military point of view, carefully planned, selective and well-supervised assistance to the National Government, under conditions which will assure that this assistance will not be misused, will definitely contribute to United States security interests. Such assistance should facilitate the military development which appears essential for the unification and stabilization of China. It should enable China more effectively to resist Soviet expansionist efforts in the Far East and will thus contribute to the military security of the United States. In addition, it should be a stabilizing factor throughout the Far East. A firm United States position in this regard, as in the Middle East and elsewhere in the world, would serve the cause of peace as well as the other aims of the United Nations."

c. On 31 March 1948 the Joint Chiefs of Staff reaffirmed these views in the following language:

"...⁷⁸ the situation in Greece emphasizes that economic aid has little value unless and until internal conditions of law and order are

⁷⁸ Omissions in this paragraph indicated in the original.

established to the degree that the economic aid will serve the purpose for which intended . . . it would be unwise to extend economic aid to China without the military assistance which will provide the National Government some means with which to improve the present situation of internal armed conflict . . . the Joint Chiefs of Staff perceive no objection to the view that the United States assistance program in China should be regarded as subordinate to the efforts to stabilize conditions in areas of more strategic importance."

d. Authorized U. S. aid to China from V-J day to the present, exclusive of the surplus property sales, aggregates somewhat over one billion dollars, at least half of which was in the form of military assistance. This aid in part, however, was not administered in a coordinated manner and under an integrated program designed to effect the optimum benefit for value received.

e. The . . . estimate of the situation places the Chinese Communists in possession of the strategic initiative. The relative tactical troop strength of the opposing forces is estimated at 1,350,000 Communists and 2,200,000 Nationalists. However, the apparent Nationalist numerical superiority is offset by the fact that more than half of the Nationalist total are currently isolated in 10 garrison areas in Manchuria, North China and Central China, and the remainder are engaged in attempting to maintain the few remaining lines of communication. The Nationalist forces, isolated in a series of garrison areas or confined in shrinking areas, have no strategic offensive capability and their defensive capabilities are decreasing. The lack of overland lines of communication has placed an increasing burden on an already limited air supply service upon which the isolated Government concentrations are totally dependent, and the local supply situation would remain critical even if adequate supplies were available in rear areas. Isolation and confinement of Nationalist concentrations has forced the Government to disperse supplies and troop strength over widely scattered areas to such an extent that the Nationalists are incapable of concentrating their efforts in a single area, and isolation of the concentrations precludes mutual support and coordinated effort. Meanwhile, the Communists are directing their energies against strategic areas, the loss of which would adversely affect the Nationalists' limited capabilities. In a number of instances the Nationalists have shown a lack of will to resist, but defection on an alarming scale has not been noted.

f. In the political field the Generalissimo continues to be the balance of power among the various political cliques and elements striving for power in the Government. The appointment of Wong Wen-hao as Premier indicates that the real administrative power will remain with the Presidency and that the Cabinet will function ineffectually. **Dr. Wong Wen-hao** is the symbol of reform but he is completely pow-

erless at this time when the power structure of the Government is being more closely identified with military factions, personality relationships, and loyalty factors than with progressive administrative processes. There is increasing speculation of late that certain separatist movements opposing the Generalissimo will take form in the very near future. In this regard considerable emphasis has been attached to the activities of Marshal Li Chi-shen in Hong Kong, who was reported to have stated that he will form a provisional government in China proper imminently. It is difficult to credit Marshal Li Chi-shen with sufficient influence or capability of forming an effective provisional Government at this time. Although it is evident that the personal position of the Generalissimo is being severely contested at this time, and that factors of potential dissidence are present in the government, it is at the same time recognized that the elements of military and financial power, which represent political power, still remain at this time in the hands of the Generalissimo.

g. Under the provisions of the China Aid Act of 1948, China will receive aid in the amount of \$400,000,000 from the United States, \$275,000,000 in economic assistance and \$125,000,000, presumably, for military supplies. However, there is doubt that this program will bring about any real or permanent improvement in the situation. It may, however, serve to postpone total disintegration of the Government by improving the economic situation in the large city areas, and provide a training and equipping program for much needed troop replacements.

h. The growing military and political power of the Chinese Communists is making a substantial contribution to the attainment of Soviet objectives in the Far East. These appear to be:

- (1) Formation of a Soviet-dominated puppet State in Manchuria;
- (2) A more circumspect, but equally positive program in China, based upon the anticipated collapse of the National Government.

i. The situation in China will continue to be serious, but in the absence of the wholesale Nationalist desertions to the Communists, and uncontrollable strikes and food riots in the cities, it is believed that the Nationalists retain sufficient capability to forestall collapse in the immediate future. This capability, however, appears to be limited to a short period of time (say 3 to 6 months) unless certain military or economic improvements can be effected:

j. In light of the existing situation, the following critical questions face the U. S. Government:

- (1) What will be the effect on the security of the United States should the present Chinese National Government collapse?
- (2) What should be the attitude of the U. S. toward forestalling collapse of the present Chinese National Government?

(3) What should be the attitude of the U. S. with respect to recognizing and/or aiding regional governments in China, should this transpire?

3. The following courses of action would appear to be open to the U. S.

a. U. S. aid might be increased to the maximum extent feasible. This course of action would undoubtedly commit the resources of the United States to an extent which could be ill afforded at present, particularly in the light of the ERP. It is also questionable, owing to the rapid deterioration of the military and economic situation, as to whether commensurate benefits would ensue.

b. U. S. aid might be withdrawn. Such a course of action would undoubtedly precipitate the fall of the National Government and accelerate the financial and economic deterioration now in process. This step would appear to nullify the will of the Congress which has legislated aid to China to the amount of \$400,000,000 for the current year.

c. Continuation of U. S. aid on basis of programs now authorized. This course of action would recognize the interest of Congress in continuing the ECA aid program as well as maintain, before the world, the semblance of adhering to announced U. S. policy toward China. Such a course could not produce the favorable decision required in the short time available to the Chinese National Government; nevertheless, it would be in the nature of "buying time" until the overall world situation is clarified.

d. United States recognition and aid might be shifted from the National Government of China to appropriate regional regimes that may arise as a result of the collapse of the present national government. Under this course decision would have to be made as to whether to affiliate with certain separatist movements or remain aloof until such time as they might of their own accord arise out of the collapse of the present government. The process of encouraging separatist movements would be contrary to the expressed policy of the U. S.

Executive Secretariat Files : NSC 22

*Memorandum by the Deputy Director of the Policy Planning Staff
(Butler)* ⁷⁹

[WASHINGTON,] July 27, 1948.

The Secretary of Defense on January 15, 1948 requested that this Department prepare a basic study regarding U. S. policy toward China for NSC consideration. S/P ⁸⁰ thereupon undertook a pre-

⁷⁹ Addressed to the Secretary of State and the Under Secretary of State.

⁸⁰ Policy Planning Staff.

liminary survey of the problem, calling in outside specialists on China for an exhaustive examination of the issues involved. S/P has therefore completed basic preparation for an overall China paper.

However, it soon became evident at NSC Staff Meetings, when the problems of interim aid to China and defense of Tsingtao arose, that this Department and the Departments of the Army and Air Force differed widely in their analyses of the China situation. This divergence resulted in a split paper on interim aid⁸¹ and a postponement of decision regarding Tsingtao.

S/P therefore felt that, rather than presenting the NSC members with another split paper on the overall China problem, it would be preferable to wait on the persuasive influence of events in China to demonstrate the validity of this Department's analysis.

S/P feels that the time is now about ripe for this Department to submit a position paper on China to the NSC. It is, therefore, beginning to prepare the initial draft of such a paper.

Meanwhile the Secretary of the Army has submitted for consideration by NSC members on August 5 the underlying paper, "Possible Courses of Action for the U. S. with respect to the Critical Situation in China" (NSC-22).⁸² The attached report anticipates an early collapse of the Chinese Central Government and raises the question of U. S. policy toward recognizing and possibly aiding such regional governments as might eventuate.

There follows S/P's comments on the concluding points in Mr. Royall's paper, page 6, paragraph *i*, onward:

The collapse of the present Chinese National Government would probably have an adverse effect on the security of the U. S. However, like everything else about China, this should not be taken for granted as a hard and fast maxim. It is not inconceivable that a collapse of the Central Government might bring about a cessation of hostilities and a transfer of the struggle from the military to the political plane where non-Communist elements might retard the Communist advance more successfully than the National Government has through military action. And even if the Civil War were to continue it is not out of the question that the residual war lords, or a new non-Communist realignment, might fight more effectively than the present nominally centralized regime.

In examining courses of action open to the U. S. the underlying paper suggests that aid might be increased to the "maximum extent feasible" and then proceeds apparently to argue that such a course is infeasible. This internal contradiction, resulting from a failure to define terms, makes the suggestion meaningless.

⁸¹ Dated March 26, p. 44.

⁸² *Supra*.

S/P agrees with the Army paper in dismissing the suggestion that U. S. aid might be withdrawn.

It agrees with the third course suggested, that U. S. aid should be continued on the basis of programs now authorized. S/P might add parenthetically that it does not see that any useful purpose is served by raising the questions of increasing or withdrawing aid only to dismiss them and conclude that our present policy of aid is correct.

A fourth course is that "United States recognition and aid might be shifted from the National Government of China to appropriate regional regimes that may arise as a result of the collapse of the present national government." It is quite normal in international relations that, with the collapse of a government, recognition should be transmitted to its successor. It would, however, obviously be inappropriate to transfer recognition to several regional regimes as the government or governments of China. It is also stated in the attached paper that "Under this course decision would have to be made as to whether to affiliate with certain separatist movements or remain aloof until such time as they might of their own accord arise out of the collapse of the present government." S/P would observe that it is not the policy of the U. S. Government to "affiliate" itself with foreign governments, much less alien separatist movements. There can be no hard and fast rule laid down for U. S. relations with possible successors to the National Government this far in advance of the "collapse" anticipated by the Department of the Army. What position the U. S. Government is to take will depend on circumstances at the time.

GEORGE H. BUTLER

S93.50 Recovery/7-2848

President Truman to the Secretary of State

WASHINGTON, July 28, 1948.

MY DEAR MR. SECRETARY: My letter of June 2, 1948, addressed to you concerning the provision of additional aid to China as authorized by Section 404(b) of the China Aid Act of 1948 is amended to read in pertinent part as follows:

"It is my desire that the grants to China under this Section of the Act, which grants are hereby made, shall be under the following procedure:

1. The Chinese Government will from time to time submit to the Department of State requests for payment with respect to commodities or services procured or ordered by it, supported by purchase orders, contracts, invoices or other appropriate documentation evidencing the transactions.

2. The Department of State will examine the documentation submitted by the Chinese Government to determine that the request is

not in excess of the total represented by the supporting data and will authorize the Treasury to make the appropriate payments to the Chinese Government. The Treasury Department shall make the payments in accordance with such authorization.

3. In those cases in which the Chinese Government wishes to arrange for the procurement or furnishing of supplies or services by any department, agency, or establishment of the United States Government, subject to the approval of the Secretary of State as to the availability of funds prior to the procurement or furnishing of such supplies or services and pursuant to Sections 403 and 113(a) of the Foreign Assistance Act of 1948, such department, agency, or establishment is authorized to submit to the Department of State requests for reimbursement of appropriations or for advance payments. On the basis of such requests, the Department of State will authorize the Treasury Department to make reimbursements or advance payments to such department, agency, or establishment.

4. The Secretary of State will request from the Chinese Government monthly reports showing in as much detail as possible the purposes for which expenditures have been made out of the funds provided to it under the authority of Section 404(b) of the Act."

Attached is a copy of my letter to the Secretary of the Treasury⁸³ advising him of this decision.

Sincerely yours,

HARRY S. TRUMAN

893.50 Recovery/7-2848

President Truman to the Chairman of the Senate Committee on Appropriations (Bridges)

WASHINGTON, July 28, 1948.

MY DEAR SENATOR BRIDGES: Thank you for your letter sent jointly with Chairman Taber, House Appropriations Committee,⁸⁴ further expressing the views of the Senate-House conferees with respect to the expenditure of the \$125 million authorized for grants to China under Section 404 (b) of the China Aid Act.

I have instructed the Secretary of State to check the supporting data submitted by the Chinese Government in connection with requested payments to assure that no authorization for payment is issued in excess of appropriated funds. In addition I have directed the Secretary of Defense to render appropriate assistance to the Chinese Government in the acquisition of such military supplies as the Chinese Government may request.⁸³ Accordingly, due consideration will be given to the general proposals made by Secretary of the Army Royall and General Wedemeyer to the Senate and House Appropriations Committees.

⁸³ *United States Relations With China*, p. 950.

⁸⁴ Letter of July 1, p. 107.

All administrative checks and controls related to this program will, of course, have to be carried out in a manner consistent with the clearly stated desire of the Congress that assistance furnished under this program shall not be construed as an expressed or implied assumption by the United States of any responsibility for policies, acts or undertakings of the Republic of China or for conditions which may prevail in China at any time.

I have sent a similar letter to Chairman Taber, House Appropriations Committee.

Sincerely yours,

HARRY S. TRUMAN

893.50 Recovery/7-148

The Secretary of State to the Chinese Ambassador (Koo) ⁸⁶

WASHINGTON, July 30, 1948.

EXCELLENCY: I have the honor to refer to my note of June 28, 1948 in which were set forth the terms decided upon by the President of the United States to govern the extension of additional aid to the Government of the Republic of China through grants authorized under Section 404(b) of the China Aid Act of 1948 and to your note of July 1, 1948 ⁸⁷ indicating your Government's acceptance of those terms.

I am now authorized to inform you of the following procedure established by the President by which United States Government departments, agencies or establishments may assist the Chinese Government in arranging for the procurement or furnishing of supplies or services under Section 404(b) of the China Aid Act of 1948:

In those cases in which the Chinese Government wishes to arrange for the procurement or furnishing of supplies or services by any department, agency or establishment of the United States Government, subject to the approval of the Secretary of State as to the availability of funds prior to the procurement or furnishing of such supplies or services and pursuant to Sections 403 and 113(a) of the Foreign Assistance Act of 1948, such department, agency or establishment is authorized to submit to the Department of State requests for reimbursement of appropriations or for advance payments. On the basis of such requests, the Department of State will authorize the Treasury Department to make reimbursements or advance payments to such department, agency or establishment.

Accept [etc.]

For the Secretary of State
ROBERT A. LOVETT
Under Secretary

⁸⁶ The Chinese Ambassador in a note of August 6 stated that the Chinese Government accepted the procedure set forth in this note. For text, see *United States Relations With China*, p. 951.

⁸⁷ See footnote 63, p. 101.

Executive Secretariat Files : NSC 22 folder

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] August 2, 1948.

Subject: Report to the National Security Council by the Secretary of the Army regarding Possible Courses of Action for the United States with respect to China

The attached report to the National Security Council from the Secretary of the Army (NSC 22, July 26, 1948)⁸⁸ represents the policy of the United States toward China as unchanged from that expressed in the President's statement of December 1945⁸⁹ on this subject. This, in effect, is as out-dated as was the Presidential directive of February 25, 1946⁹⁰ authorizing the establishment of the U. S. Military Advisory Group in China, which was the subject of recent comment in connection with the new directive for the U. S. Military Advisory Group. In its analysis of the situation in China, the report includes in its description of the broad objectives of current U. S. policy toward China the following statements: "China should eliminate by political agreement, conflict of armed forces within her territories"; China should "broaden the base of the National Government to make it truly representative of the Chinese people in achieving the goal of a united and democratic China"; and "the United States Government desires to assist China as she moves toward peace, unity and genuinely democratic government". This description of U. S. policy objectives in China carries the implication that the U. S. Government favors a coalition government in China, that it envisages the formation of a genuinely democratic government and that the U. S. will aid China only as the latter achieves peace, a united China with Communist participation in the Government and democracy. That China might arrive at these solutions of its problems is one thing, but to state that these are current U. S. policy objectives is to overlook the aid the U. S. is and has been extending to China and the complete absence of any indication since the end of 1946 that this Government favors a coalition government in China. This was expressed publicly by both you and the President in March of this year.⁹¹

The answers are obvious to such questions as "What should be the attitude of the U. S. toward forestalling collapse of the present Chinese National Government?" and those regarding the courses of action open to the U. S.—such as U. S. aid might be increased to the

⁸⁸ See *ante*, p. 118.

⁸⁹ December 15, 1945, *United States Relations With China*, p. 607.

⁹⁰ Directive to the Secretaries of State, War, and the Navy, *Foreign Relations*, 1946, vol. x, p. 823.

⁹¹ Statements to the press by the Secretary of State on March 10 and by President Truman on March 11, vol. VII, pp. 138 and 141, respectively.

maximum extent feasible and U. S. aid might be withdrawn. The U. S. is trying to prevent the collapse of the Chinese Government. Since the Congress recently reduced the amount of aid for China originally proposed by the Department and since it would not be possible to increase the amount of aid without Congressional action, which would not be expected to take effect prior to the end of the present aid program on April 3, 1949, it is difficult to see how U. S. aid to China might be increased at this juncture. It is, of course, unthinkable that U. S. aid would be withdrawn in the light of our avowed support to the Chinese National Government. The report's suggestion that U. S. aid should be continued on the basis of programs now authorized is naturally the only course open to the U. S. at this time.

The final course of action open to the U. S. described in the report is that which may arise in the event of the collapse of the present National Government. The report states: "Under this course decision would have to be made as to whether to affiliate with certain separatist movements or remain aloof until such time as they might of their own accord arise out of the collapse of the present Government. The process of encouraging separatist movements would be contrary to the expressed policy of the U. S." The report does not make clear what it means by "affiliate" with separatist movements, but the U. S. Government does not, so far as is known, "affiliate" with movements in opposition to a legally recognized foreign government. It is true, however, that this course of action is one which may confront the U. S. Government, given a continuation of the present rate of deterioration in China. It was the possibility of such a development that prompted my memorandum of July 27, 1948,⁹² in which it was recommended that the question of United States policy toward China, including these possible developments, be referred to the National Security Council.

A further question which arises in this connection is that regarding the attitude of the U. S. toward furnishing, either directly or through the National Government, military equipment to Government commanders such as General Fu Tso-yi. The latter has been the most successful of the Government commanders against the Communists but is said to be receiving little or no military matériel from Nanking. Both the Ambassador and Admiral Badger have recommended that the U. S. Government exert pressure on the Generalissimo to ensure that General Fu receive a share of the military supplies acquired by the National Government under the \$125 million grants. To furnish General Fu military aid without reference to the National Government would be to encourage regionalism, but to withhold military equipment from

⁹² Vol. VII, p. 379.

him because of the Generalissimo's reluctance to have his position strengthened might be to contribute to Communist successes in north China, where there are already signs of considerable dissatisfaction with Nanking because of its neglect of that area. This problem should, therefore, also be one for reference to the National Security Council, for it will no doubt require instruction to General Barr for representations to the Generalissimo.

Attached is a copy of a memorandum, dated June 11, 1948,⁹³ of your conversation with Secretary Royall and officers of the Department of the Army (Tab B), which indicates the view of those present that the U. S. must not become directly involved in the civil war in China.

Executive Secretariat Files : NSC 22 folder

Memorandum by Mr. Paul H. Nitze, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), to the Secretary of State

WASHINGTON, August 3, 1948.

Subject: Comments and recommendation concerning National Security Council paper circulated at request of the Secretary of the Army for discussion at the next meeting of the National Security Council concerning the current critical situation in China and outlining alternative courses of U. S. action.

Comments

While the attached memorandum⁹⁴ primarily raises questions for decision on political and military grounds, the following comments are offered with respect to the analysis of the current situation in China, the critical questions which face the U. S. Government and the suggested courses of action.

1. Since promulgation by the National Government of its ten-point program of domestic self-help measures on January 28, 1948,⁹⁵ the economic situation in China has deteriorated at an accelerated pace. The National Government has not in fact taken action to show that it will or can come to grips with the basic problems of budgetary and balance-of-payments deficits. The capacity of the government to initiate and carry through necessary reforms is declining as the military situation and prospects worsen, as rumors of defection and separatist movements increase, and as confidence in the present Nanking regime falls lower and lower.

2. Some constructive steps have been taken with U. S. assistance, for example, the inauguration of rice rationing in principal urban

⁹³ *Ante*, p. 90.

⁹⁴ See note by Rear Admiral Sidney W. Souers to the National Security Council, July 26, p. 118.

⁹⁵ See statement from the Chinese Embassy, p. 7.

centers has proved a stabilizing factor and has undoubtedly contributed to maintenance of public order. It is too early to write off the possibility of any further constructive steps in connection with the present China Aid Program and this Program must be ably staffed and energetically carried thru by the United States. As matters now stand, however, it appears that at best the present aid program can only slow down the rate of deterioration in a worsening situation. There is no real basis for foreseeing improvement in economic and political prospects in China unless and until a Chinese Government itself can and will carry through energetically a program of rural and fiscal reforms.

3. The Chinese Government has now drawn down its official foreign dollar holdings until little remains uncommitted beyond minimum working balances of \$25 to \$35 million (officially-held gold in China amounts to approximately \$84 million and official holdings of silver in China are around \$28 million). Unless China can rapidly take steps to increase her exports and acquire for official use the dollars from foreign overseas remittances, the end of the present U. S. aid program in April 1949 will find her with foreign exchange assets completely depleted, and without means for acquiring the necessary amounts of imports of military supplies, raw materials, fuel and foodstuffs.

4. Even on the assumption that the present regime retains some degree of authority in Nanking during the next six months, the dependence of that regime on continuance of U. S. assistance will be completely apparent, and a decision will have to be reached in this Government at the latest by next February or March as to whether to continue to support the present Nanking regime. This decision may be required even sooner should there occur a collapse in the authority of the present regime from military reverses, from its currency becoming worthless, or because of separatist movements. It would be a decision vastly more difficult and far-reaching in its implications should the present regime remove itself from Nanking and still claim to function as the Government of Nationalist China.

5. In our view, even in the present serious situation which appears to be shaping up to a crisis, this Government stands committed to support in coming months, as much as possible, the present National Government of China. It should, however, be made finally and unmistakably clear to the leader of that Government that U. S. aid cannot in itself save a situation in which the Nationalist Government itself cannot or will not take the measures of self-help necessary to utilize that aid effectively, and to command the support of the Chinese people. No pledge of further U. S. aid should be made, except as it is contingent upon the record which the present regime makes in utilizing aid presently going forward.

6. As long as the U. S. recognizes the present National Government of China, in our view, it must deal through that Government and not by-pass Nanking to deal with individual military leaders or separatist groups. If it is the view of the U. S. Government that larger amounts of U. S. economic or military aid should go to areas or commanders now neglected by the Nationalist Government, it is appropriate to exert the strongest pressure on the Nationalist Government to have this done.

7. In the event of a collapse in the authority of the present regime in China, this Government should take all steps which circumstances permit to support new leadership pledged to maintain and develop an independent, non-Communist National Government. This would not only be consistent with our objectives and policies in the past, but it appears the course by which this Government can most effectively help to maintain China's position in the family of nations, her role in the United Nations and other international bodies, the maintenance of her legal commitments from the standpoint of peace treaties, commercial treaties and other international obligations.

Recommendation

It is recommended that this Government should as a matter of urgent priority consider in the National Security Council possible courses of action in the event of collapse in the authority of the present regime in China, particularly with respect to its attitude towards support of other non-Communist regimes which may be established in various parts of China, and to the steps which it proposes to take under various foreseeable circumstances for protection of U. S. lives, property, and commercial interests in China.

Executive Secretariat Files : NSC 22/1

*Note by Rear Admiral Sidney W. Souers, Executive Secretary to the
National Security Council*

NSC 22/1

[WASHINGTON,] August 6, 1948.

POSSIBLE COURSES OF ACTION FOR THE U. S. WITH RESPECT TO THE CRITICAL SITUATION IN CHINA

The comments of the Joint Chiefs of Staff with respect to NSC 22 are contained in the enclosed memorandum transmitted to the National Security Council by the Secretary of Defense.

At its 17th Meeting the National Security Council referred NSC 22 and the comments by the Joint Chiefs of Staff thereon to the NSC Staff for the preparation of a report to the Council in conjunction with the Staff's study of NSC 11, "U. S. Armed Forces at Tsingtao".⁹⁶

⁹⁶ *Post*, p. 314.

Accordingly, the enclosure is circulated herewith for the information of the National Security Council and for the use of the NSC Staff pursuant to the above action.

SIDNEY W. SOUERS

[Enclosure]

*Memorandum by the Joint Chiefs of Staff to the Secretary of Defense
(Forrestal)*

WASHINGTON, 5 August 1948.

MEMORANDUM FOR THE SECRETARY OF DEFENSE:

Subject: Possible Courses of Action for the United States with Respect to the Critical Situation in China.

In accordance with your informal request, the Joint Chiefs of Staff have studied NSC 22, a paper entitled "Possible Courses of Action for the United States with Respect to the Critical Situation in China", and are in general agreement with the analysis therein of the present critical situation in China and with the statement, following the analysis, of the critical questions now facing the United States Government with respect to China.

The Joint Chiefs of Staff reaffirm their earlier views regarding assistance to China, as quoted in paragraphs 2b and 2c of the subject paper, which are reproduced below for ready reference:

"It is the opinion of the Joint Chiefs of Staff that, from the military point of view, carefully planned, selective and well-supervised assistance to the National Government, under conditions which will assure that this assistance will not be misused, will definitely contribute to United States security interests. Such assistance should facilitate the military development which appears essential for the unification and stabilization of China. It should enable China more effectively to resist Soviet expansionist efforts in the Far East and will thus contribute to the military security of the United States. In addition, it should be a stabilizing factor throughout the Far East. A firm United States position in this regard, as in the Middle East and elsewhere in the world, would serve the cause of peace as well as the other aims of the United Nations.

"The Joint Chiefs of Staff would point out that the situation in Greece emphasizes that economic aid has little value unless and until internal conditions of law and order are established to the degree that the economic aid will serve the purpose for which intended. In their opinion, it would be unwise to extend economic aid to China without the military assistance which will provide the National Government some means with which to improve the present situation of internal armed conflict.

"The Joint Chiefs of Staff perceive no objection, from the military point of view, to the conclusion that the United States assistance pro-

gram in China should be regarded as subordinate to the efforts to stabilize conditions in areas of more strategic importance."

(It should be noted, in connection with the last paragraph quoted above, that the United States assistance program in China is subordinate to such efforts elsewhere, since aid to China comprises 6.7% of foreign aid appropriations for the fiscal year 1949.)

Additional views of the Joint Chiefs of Staff approved by them on 9 June 1947 and still applicable from the military viewpoint, are quoted below as an indication of the importance to our national security of continued resistance to communist expansion in China:

"a. The United States must seek to prevent the growth of any single power or coalition to a position of such strength as to constitute a threat to the Western Hemisphere. A Soviet position of dominance over Asia, Western Europe, or both, would constitute a major threat to United States security.

"b. United States security interests require that China be kept free from Soviet domination; otherwise all of Asia will in all probability pass into the sphere of the USSR.

"c. It is to United States military interests that the nations of Eurasia oppose Soviet expansion.

"d. Soviet expansionist aims and long-range objectives are being furthered in China by the military operations of the Chinese communists.

"e. Soviet expansionist aims in China, furthered by operations of Chinese communists, are clearly incompatible with United States security.

"f. With a disarmed and occupied Japan, the only Asiatic government at present capable of even a show of resistance to communist expansion in Asia is the Chinese National Government.

"g. Unless the Chinese National Government is given military assistance sufficient to resist effectively communist expansion in China, that government will probably collapse, thus terminating the only single and unified opposition to Soviet expansionist aims in Asia.

"h. United States commitments to the United Nations, in which China at United States insistence is one of the designated five great powers, require our support of the National Government's efforts to gain control over Manchuria; otherwise China's military potential of raw materials essential to her future development into a great power will be lost to her.

"i. Time works to the advantage of the USSR in China. The continuation of chaos can be expected eventually to result in the fall of the Chinese National Government. United States assistance, including military aid, is necessary at an early date if any degree of stabilization for China is to be attained."

In light of the paper on which comment is being made and of the views of the Joint Chiefs of Staff reproduced above, consideration has been given to the alternative United States courses of action set forth at the end of that paper. Briefly, these courses are:

- a.* Increase United States aid to the maximum extent feasible;
- b.* Withdraw United States aid;
- c.* Continue United States aid on the basis of programs now authorized;
- d.* Shift United States recognition and aid from the National Government of China to appropriate regional regimes that may arise as a result of the collapse of the present National Government.

While it is clear that the present Chinese National Government may collapse and that it would be out of the question for the United States to provide assistance, both material and military, on the massive scale that would be required for complete and early stabilization of China, it is not correctly a foregone conclusion that it is too late for worthwhile continuation of United States aid on the basis of programs now authorized.

The situation is worse than it was, but it is not, in the opinion of the Joint Chiefs of Staff, so bad that any further effort on the part of the United States would be useless. Thus, it is all the more important to continue the present authorized programs, rather than to encourage, if not assure, collapse by withdrawal of aid.

As earlier stated, carefully planned, selective and well-supervised assistance to the Chinese National Government, with safeguards against misuse of such assistance and with inclusion of military equipment assistance, should make the Chinese assistance programs useful and effective.

The Joint Chiefs of Staff do not predict that this will necessarily turn the tide. They are convinced, however, that it will at least delay and postpone further deterioration and that the importance to our national security of the issues involved justifies, therefore, continuation of authorized assistance programs with special emphasis on the efficient and early implementation of the military aid program.

With regard to financial aspects of military aid, the Joint Chiefs of Staff understand that the President has recently requested the Secretary of Defense to take action to facilitate, in connection with the China Aid Act of 1948, the acquisition by the Chinese Government of such military supplies as the Chinese Government may request, either by making available existing stocks of the National Defense Establishment or by arranging for the procurement of such supplies on behalf of that government.

In view of all the preceding discussion, the Joint Chiefs of Staff recommend, with respect to the first three alternative United States courses of action, that the third alternative, continuation of United States aid on the basis of programs now authorized, continue to be accepted as the United States course of action.

With respect to the fourth alternative, shift of recognition and aid to appropriate regional regimes if the present Chinese National Government collapses, the Joint Chiefs of Staff believe that decision should properly be made in the light of the existing situation if and when collapse occurs. They believe, however, that at that time favorable consideration should be given to the above fourth alternative, since they are convinced that no matter how unfavorable ultimate developments in China may be, nor how possible it may be that they cannot be indefinitely forestalled, the buying of time by expenditures within reason will constitute, as in the case of the recommended continuation of authorized aid programs, true economy in terms of our national security.

For the Joint Chiefs of Staff:
WILLIAM D. LEAHY
Fleet Admiral, U. S. Navy
Chief of Staff to the
Commander in Chief of the Armed Forces

800.24/7-2448

The Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, August 9, 1948.

DEAR MR. SECRETARY: I refer to your letter of July 24 with regard to the relative priorities to be accorded certain countries which are receiving or are about to receive military supplies from the United States under the terms of foreign aid programs.

An over-all determination of priorities anticipating inter-Departmental agreement is now in process. Pending completion of this study it is my opinion that priorities for existing military assistance programs for the five countries specified in your letter should be in the following order: Greece, Turkey, Iran (present commitments only), China, Argentina. Present commitments to Iran are understood to include the repair, packing and shipment of items already declared surplus and allocated to that country.

Every effort should be made to meet the most urgent Chinese requests under the 125 million dollar grants. In view of the imminent completion of the Iranian program, the foregoing order of priorities accords a high priority to China immediately following that of Greece and Turkey. It is suggested that these high priority projects may be implemented concurrently. I am told that many of the Chinese requirements do not conflict with Greece and Turkey items. Furthermore the progress of the campaign in Greece and season of the year matériel would be delivered in Greece may warrant a decision in favor of China for some items in which a dual requirement exists. In cases

of clear conflict with regard to urgently required matériel, preference should be given to Greece and Turkey.

If the Secretary of Defense concurs in these priorities, they may be considered as agreed upon priorities of this Government for these five programs.

Your letter indicates that the revision of present priorities is necessitated by civilian personnel ceilings imposed on the Department of the Army. With respect to the civilian personnel ceilings imposed by the Byrd Law, it is suggested that consideration be given to the provisions of paragraph 104 (e) of the Economic Cooperation Act of 1948, the pertinent section of which is quoted herewith:

“(e) Any department, agency, or establishment of the Government (including, whenever used in this title, any corporation which is an instrumentality of the United States) performing functions under this title is authorized to employ, for duty within the continental limits the United States, such personnel as may be necessary to carry out the provisions and purposes of this title, and funds available pursuant to section 114 of this title shall be available for personal services in the District of Columbia and elsewhere without regard to section 14 (a) of the Federal Employees Pay Act of 1946 (60 Stat. 219).”

Faithfully yours,

G. C. MARSHALL

893.50 Recovery/8-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 9, 1948—6 p. m.
[Received August 10—1:19 a. m.]

1466. Report from reliable Chinese source indicates that Wellington Koo saw President recently and has reported President as having promised to have his military people look into possibility further military aid China. This report has been greeted with enthusiasm in Nanking. If President made no such promise, it would be advisable for us to correct impression created in Nanking by Koo's report. We assume, however, President was speaking of letter mentioned Deptel 1101, July 30.⁹⁷

STUART

893.50 Recovery/8-948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 12, 1948—3 p. m.

1166. White House states (urtel 1466, Aug. 9) “that the President never made any statement about military aid to China to Mr. Welling-

⁹⁷ Not printed; it summarized the President's letter of July 28 to the Secretary of State, p. 124 (893.50 Recovery/7-3048).

ton Koo. The only comment the President made was one to the effect that he hoped that we would all some day see a strong, united China". Dept relies on your discretion to effect such correction as you think desirable informally and without publicity.

MARSHALL

893.00/8-1348

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, August 13, 1948.

DEAR MR. SECRETARY: In a review of the military situation in China contained in his telegram no. 374 OAGA of July 24, 1948,⁹⁸ General Barr points to the danger of a Communist attack on the southern flank of General Fu Tso-yi's command coordinated with an attack from the north by uncommitted troops in Manchuria, which would force General Fu to withdraw to the northwest and result in eventual Communist capture of Peiping and Tientsin. In his telegram 090855Z of July 10 [9]⁹⁹ and 160605Z and 160609Z of July 16, 1948,¹ Admiral Badger emphasizes the desirability of action to strengthen the position of National Government military commanders in north China, particularly that of General Fu Tso-yi, Commanding General in five critical north China provinces. Admiral Badger's reports and other reports from U. S. official sources are unanimous in their praise of General Fu for his energy and ability in utilizing the forces and resources at his command against the Chinese Communists. They point out, however, that the National Government is furnishing very little military aid to General Fu and that the latter has not been able to purchase with resources in north China munitions from private firms in the United States and from Australia. Despite the importance of north China to the National Government, the latter has apparently been so unresponsive to the needs of this area that resentment has been aroused among the north China leaders with a resulting strengthening of the trend toward regionalism.

In view of the foregoing, I suggest for your consideration the desirability of ensuring that General Fu Tso-yi obtain an appropriate share of the matériel which the Chinese Government plans to obtain through the National Military Establishment from the proceeds of the \$125 million grants authorized under Section 404(b) of the China Aid Act of 1948. Such action should not be taken, of course, without

⁹⁸ Not printed.

⁹⁹ Telegram from the Commander of U. S. Naval Forces in the Western Pacific (Badger) to the Chief of Naval Operations (Denfeld), p. 170.

¹ Telegram No. 160605Z not printed; for No. 160609Z, from the Commander of U. S. Naval Forces in the Western Pacific (Badger) to the Chief of Naval Operations (Denfeld), see p. 171.

the concurrence of Generalissimo Chiang Kai-shek since it would be undesirable to treat independently with regional commanders because of the danger of promoting regionalism in China. It would, however, seem feasible and within the limits of General Barr's relationship with the Generalissimo that he advise and urge strongly that General Fu Tso-yi be given an appropriate share of the military matériel obtained through the National Military Establishment from the proceeds of the \$125 million grants. In his discussion of the matter, it would seem desirable that General Barr also obtain the Generalissimo's concurrence to the direct diversion to the port of Tangku of matériel intended for General Fu's command. If such concurrence could be obtained, it is suggested that the U. S. Army Advisory Group might take appropriate steps to ensure that the matériel in question actually reached General Fu's command at Tangku.

I should appreciate receiving your comment on the above-outlined suggestions.

Faithfully yours,

G. C. MARSHALL

893.24/8-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 19, 1948—1 p. m.

[Received August 19.]

1536. Office of Belgian Embassy informs Assistant Military Attaché that representatives of Fu Tso-yi in Shanghai approached Belgian importers to contract for purchase of arms and other military matériel. (Importers?) informed representatives that Belgian Government would grant export license only if proof were forthcoming that Nanking Government agrees to this purchase. Fu's representatives assured importers that Government had agreed to transaction in principle and that they could secure documentation of Government concurrence. They have not returned since, so that it appears that Government refused to concur in this transaction. Belgian Embassy officer also stated that "Yangtze Valley provincial military leader" had approached Belgian firms in effort to purchase arms. He said that Swedes had been approached by Fu, but Government is unwilling sell arms in China because of fear of repercussions from Soviets. He stated that although Swedes have furnished arms to T. V. Soong, the transaction was carried out by French national acting as representative of Belgian firm.

Sent Department, pouched Peiping, Tientsin, Shanghai.

STUART

Nanking Embassy Files, Lot F73—800 Nationalist-Communist (1948)

*The Minister-Counselor of Embassy in China (Clark) to the Director
of the Office of Far Eastern Affairs (Butterworth)*

NANKING, August 27, 1948.

DEAR WALT: Admiral Badger's Top Secret message No. 240715Z to the Chief of Naval Operations under date of August 24,² brings to a milestone my strenuous efforts to assure compliance with the Secretary's directive to the effect that to make specific recommendations for the use of "other aid" would involve responsibility on our part and possible subsequent involvement which the Secretary was unwilling for us to risk. I have argued with Badger and with the Ambassador until I am blue in the face that we were not authorized to make any specific recommendations on the expenditures of "other aid" and that to importune the Gimo or others to meet the professed requirements of Fu Tso-yi or of the Garrison Commander at Tsingtao would involve a responsibility which might later become embarrassing. I have even gone so far as to reiterate *ad nauseum* that if Fu Tso-yi received so much support as result of our representations that he felt he could declare his independence and decide to go it alone, we would have to blush with shame and try to make our peace with the Gimo.

I am afraid my arguments which I have tried to keep on an unprejudiced basis have been to no avail. As I have previously intimated, Admiral Badger is desperate at the thought that he might eventually have to evacuate Tsingtao and is moving heaven and earth trying to find some way to avoid that possibility. As you know, the Ambassador's heart is most deeply involved in Yenching and consequently in the stability of North China, and, as much as I love him and admire him, I am compelled to admit that when he thinks of that situation his judgment is influenced by his desire at almost any cost to avoid Communist dominance of the Peiping-Tientsin area. By the nature of things, therefore, I have had two strikes against me in my efforts to assure strict compliance with the Secretary's directives.

I had thought that I had been able to convince the Ambassador that we could not assume the responsibility of suggesting to the Gimo any specific allotment to North China and that the most we could do was to point out to him information reaching us regarding the seriousness of the danger to North China, the vast implications of the possibility that we might have to evacuate Tsingtao, and, while at the same time admitting our lack of knowledge of his overall commitments and requirements, express our hope that he would do his utmost to see that those areas were not permitted to fall to the Communists.

² *Post*, p. 169.

I thought I had convinced the Ambassador and, in fact, his exposition of those ideas to Lapham³ was so sound I was convinced he had grasped the significance of the Secretary's policy. I knew I had not convinced Admiral Badger and that he was going to continue to try to find some way to make Tsingtao secure. Nevertheless it was a surprise to me, when they both returned from a weekend spent at Kuling as the guests of the Generalissimo and Mme. Chiang, to find that in some way the Gimo had suddenly decided on the expenditure from "other aid" of around \$20,000,000 to meet the needs of Fu Tso-yi and those of the Garrison Commander at Tsingtao. Vice Minister of National Defense Cheng Kai-min had been designated by the Gimo as the one who should make known to General Barr the needs in this regard, and after General Barr's agreement had been secured, the Gimo promised to instruct Wellington Koo to make the necessary requisitions in Washington. Cheng Kai-min did, in fact, present to General Barr a list of requirements of Fu Tso-yi to equip seven armies and of the Tsingtao Garrison Commander to equip three divisions. I understand that the Shangtung division is equivalent to one of Fu's armies.

Badger then came up to Nanking and after a conference with the Ambassador, Barr and me, it was agreed that such things as 105 mm. howitzers and heavy machine guns on Fu's request, and flame throwers, would be eliminated and that Fu would be equipped for only four rather than seven armies. Badger undertook to endeavor, through the Navy Department, to secure free transportation of this equipment in Navy bottoms which he said were coming to the Orient empty. Also, although Badger denied that he ever said so, he certainly left with the Chinese the impression that there was a possibility they would be able to acquire this equipment either as surplus or at procurement cost—this in spite of my understanding of the ECA Act and the President's directive which would require that supplies acquired under 404-b of the Act be paid for at replacement cost.

Barr has all along opposed this idea in principle and has further taken the position that the Chinese Government, with the Gimo's approval, had already set up its priorities for acquisitions under "other aid" and a couple of months or more ago instituted the procedures to acquire what they needed, all of which would be thrown into a tail-spin by any such new priority demands at this late date. Nevertheless, in his desire not to be obstructive and in view of the fact that the Gimo had apparently already taken the decision, he raised no objection and went back to Cheng Kai-min with the revised proposal.

According to Barr, Cheng Kai-min was adamant that Fu Tso-yi's seven armies should be supplied and that the heavy machine guns

³ Roger D. Lapham, Chief of the China Mission of the Economic Cooperation Administration.

should be included and equally adamant that there should be ammunition for an estimated six months' need. Barr figures these demands as at present formulated as totaling around \$41,000,000 if Badger is unable to come through with free transportation or to arrange for making the supplies available at procurement costs. In other words, about \$1,000,000 more than remains of the "other aid" for the entire army supply was to be expended solely for Fu Tso-yi and Tsingtao. There would be nothing left for spare parts and matériel needed in the arsenals and for many other vital needs under Barr's original arrangement. There seemed to be something wrong somewhere, yet the Gimo had given his authorization and there was every reason to believe that the matter would go on through.

At this stage Barr went back to see Cheng Kai-min with Ho Ying-chin and took with him a draft of the cable which the Gimo was to send to Wellington Koo. Covering the draft cable was a memorandum containing a clear statement that the request for seven armies for Fu and three divisions for Tsingtao would completely exhaust the army portion of "other aid", and a strong recommendation that in view of this fact they agree to only four armies for Fu. It may have been this memorandum, or it may have been something else, but in any event at this stage both General Ho Ying-chin and Cheng Kai-min suddenly took the strong position that they had been led to believe all along that this matériel going to Fu Tso-yi and Tsingtao was not, repeat not, coming out of "other aid", but was to be acquired on some sort of barter basis in which Fu Tso-yi and Tsingtao would supply the materials, the sale of which would sooner or later provide foreign exchange with which the United States Armed Services could be reimbursed.

I do not know, of course, what transpired in the conversations at Kuling and the Ambassador is most emphatic that he had gone to great lengths explaining to the Gimo that the \$125,000,000 would have to be used before any consideration could be given to other sources of money to pay for munitions. Nevertheless, you will recall the efforts earlier this year of Fu to obtain arms and ammunition through barter. At that time, through Barr, we were able to arrange for the Chinese Government to send Central Trust representatives into Fu's territory to ascertain whether he had materials which could be sold to bring in foreign exchange, but the result was negligible. Fu either did not have the materials he claimed or was unwilling to let the Central Trust representatives see them.

There the matter stands for the moment. Badger is coming back to Nanking next Monday and there will be another meeting with Ho Ying-chin and Cheng Kai-min. I do not know what will come out of that meeting yet I have been convinced all along that the

Chinese had no intention of letting Fu Tso-yi have all the arms and ammunition listed, particularly if the money to be used in payment was coming from the National Government till. It may be, however, that Badger can arrange for the shipment of some supplies in Navy bottoms which are coming to the Orient otherwise empty, and if so, I should think such action would come within what the Secretary would call feasible.

I thought you should have this background in view of the telegrams which may be coming in on the subject, and should anything develop in Monday's meeting I shall write you further.

Very sincerely yours,

LEWIS CLARK

893.50 Recovery/9-148: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 1, 1948—6 p. m.

[Received September 2—1:24 a. m.]

1614. For some time we have gained impression Chinese Government may have tended to minimize importance of retaining bastions in North China free of Communist control. Accordingly we have taken advantage of every appropriate opportunity to point out to Chinese critical situation in North China and our information to effect that with additional support Fu Tso-yi would be able to hold Peiping-Tientsin area and that Tsingtao could be defended.

On recent visit to Kuling as guest of Generalissimo, he expressed his realization of importance of maintaining security in Peiping-Tientsin area and in Tsingtao and said he had instructed Vice Minister National Defense, Cheng Kai-min, to consult with me and Admiral Badger who was also with me at Kuling regarding possibility expediting urgently needed ordnance supplies for those areas. Badger had indicated possibility of arranging for shipment such ordnance in navy bottoms coming to China otherwise empty. He had also mentioned possibility that some ordnance supplies might be available to Chinese at procurement costs.

It was as a result of this conversation and subsequent discussions with Cheng Kai-min that Admiral Badger despatched his message to CNO 240715Z, August 24.⁴ As some of emphasis in Badger's despatch was not in accord with our thinking, and as we felt in any event further and clarifying discussions were needed at Ministry of National Defense Badger returned to Nanking at my request and at meeting held on August 30 with Minister National Defense Ho Ying-chin and Vice Minister Cheng Kai-min, attended of course by me, General Barr, and

⁴ *Post*, p. 169.

Clark, Chinese informed us of firm decision to request equipment deemed necessary to supply 7 armies of Fu Tso-yi and 3 reorganized divisions at Tsingtao. As this program might more than exhaust total allotment from "other aid" for ordnance supplies and would thus disrupt balanced programs of requisitions previously submitted to Washington by Chinese, it was obvious to us that Chinese were seeking to take advantage of possibility of free transportation—saving about 25%—as well as possibility that some weapons might thus be secured at procurement cost, to reassure us of continuing interest of Chinese Government in security North China and Tsingtao while at same time obtaining more ordnance for same expenditure from "other aid". In fact, Defense Minister Ho assured us, and later confirmed in writing, that "the areas of North China and Shantung will be given first priority in the distribution of the weapons and ammunition for the 7 armies and 3 reorganized divisions". He said that if ordnance were available at moment he would estimate that around 50% of amount requisitioned would be made available to North China. He has also promised in writing to visit North China and determine actual requirements prior to distribution of ordnance. We have stressed that final decision in this regard rests completely with Chinese Government.

In this final discussion I took occasion to stress that while we were pointing out dangers inherent in North China situation and expressing our hope that Chinese would be able to do something to improve situation, I was nevertheless making no specific request as I was uninformed of overall Chinese requirements and realized that priority given North China needs would of necessity be determined in light of overall requirements.

Admiral Badger has returned to Tsingtao and is communicating in more detail with Navy Department on this subject. Instructions, I am informed, have gone forward to Chinese Ambassador in Washington to make immediate contact with our people for release from "other aid" of funds needed to acquire ordnance being requisitioned, details of which are in instructions to Chinese Ambassador.

Remembering your instructions that you were prepared to assist China in every "feasible" way, I have ventured to support Badger in his efforts to reduce cost to China of "other aid" by canvassing possibility of shipping some material in otherwise unused Navy bottoms and I hope my action meets with your approval. Also argument that North China can be held with relatively small increased expenditure has been sufficiently convincing to me to make me feel warranted in bringing matter to attention of Generalissimo in such a way to avoid, I believe, responsibility for any action he may take.

STUART

Nanking Embassy Files, Lot F73—800 Nationalist-Communist (1948)

*The Commander of U. S. Naval Forces in the Western Pacific
(Badger) to the Chief of Naval Operations (Denfeld)*

[TSINGTAO,] September 6, 1948.

060027Z. Chinese Minister National Defense at conference with American Ambassador, Admiral Badger, General Barr and General Cheng Kai-min, made following statements at direction of Gimo relative to subject my dispatch 240715Z, August: ⁵

a. Chinese were ready prepare requisition for weapons for seven armies plus three reorganized divisions in quantities listed my dispatch 060119Z ⁶ as soon as prime quotations received.

b. Estimated cost based on standard price list 1945. Spare parts and accessories for weapons amount ten percent weapon cost.

c. Transportation by US Navy to China requested without charge.

d. Total requisitions estimated 27 million dollars chargeable 125 million dollar US Military fund China.

e. North China and Shantung would be given first priority in distribution.

Earliest information as to our queries and proposal US Government regarding arms supply is essential permit Chinese implementation their plans and to avoid embarrassment US representatives in view our repeated urging to Chinese that time was utmost importance and they must expedite their action.

Believe observed upswing Nationalist optimism and present offensive spirit definitely linked to anticipated US aid. Early aid will contribute materially to desired timing in augmenting effort of Nationalist offensive. In order to provide maximum means for Nationalist Government to implement positive action against Communists, it is recommended that cost of material be kept to a minimum so that needed quantities can be obtained. Chinese Government ready to follow up program on receipt of unit costs from US. See also my 060005Z.⁷

Nanking Embassy Files, Lot F73—800 Nationalist-Communist (1948)

*The Commander of U. S. Naval Forces in the Western Pacific
(Badger) to the Chief of Naval Operations (Denfeld)*

[TSINGTAO, September 6, 1948.]

060005Z. Since conference with Chinese, mydis 060027Z,⁸ US representatives have reviewed history of proposal and action on part of

⁵ *Post*, p. 169.

⁶ September 6, not printed.

⁷ *Infra*.

⁸ *Supra*.

US in connection therewith. It was decided today after talk with Ambassador that certain considerations should be presented to Washington in order to give broader understanding of proposal. The importance of early favorable action and necessity for keeping US representatives in China up-to-date and continually informed as to status of proposal. These considerations follow.

The proposal and later comments and recommendations in connection therewith that have emanated from originator all have concurrence and are in harmony with views of Ambassador, Army Advisory Group, this Command and other responsible US officials in China. A communication from originator on this subject may consequently be accepted as combined voice of these officials.

The economic program for aid to China is well under way. There is much publicity and favorable comment regarding speedy manner in which this program has been pushed forward. There is on the other hand some comment, critical and adverse to us, of what appears to many to be unnecessarily slow progress in carrying out military aid program. If it were possible to get quick approval of proposed arms project for North China it would be most helpful in counteracting unfavorable aspects.

We have repeatedly criticized Chinese Central Government as inept and weak and generally unable help self. The recently instituted monetary reform constitutes convincing evidence of their willingness and determination to respond your [*our?*] advice to help themselves. These measures thus far have been more successful than either Chinese or anyone else had anticipated. Although not yet reflected in current intelligence reports, Chinese Government has acquired more aggressive military spirit and feeling of confidence in its ability to achieve economic and political reforms. Authorities now are planning other reforms and positive steps along lines that we have so often urged. It would hearten them immensely if we could at this time strengthen their hand by giving them tangible evidence of our backing by supplying quickly and cheaply the arms they need now for their North China and Shantung projects.

Our discussions with Chinese leaders in Central Government at Nanking and in North China and Shantung and our efforts to get Central Government to appreciate needs of and to support North China have resulted in drawing together of leaders such as Fu Tso-yi and the Generalissimo where only a little while ago the breach seemed to be widening. Through US efforts a unity of Chinese effort may soon be realized which heretofore seemed impossible. At this stage it would be regrettable if through failure to act quickly on arms proposal the US Government should appear to the Chinese to be indifferent to their response to our suggestions.

The Ambassador, Chief of Army Advisory Group and ComNavWesPac all feel that the effects of the program to supply arms to North China may now be much more far-reaching than any of them had originally contemplated. Not only does it hold possibility of best supporting US position and interests in China but it has already been instrumental in changing a gloomy outlook into one of distinctly hopeful possibility. It could be the turning point which would ultimately lead to a strong united China friendly to United States and an effective opponent of Communism.

Ambassador has just read and reiterates his endorsement contents this despatch.

In carrying out his duties to JCS in connection with discharge US military commitments in China, ComNavWesPac communicates with CNO, as primary contact and it is therefore requested that CNO follow up progress with other agencies concerned and keep ComNavWesPac fully informed in order that this effort and coordination with others may be most effective. My 060027Z⁹ and 060119Z¹⁰ are related subjects.

Policy Planning Staff Files, Lot 54D195

*Memorandum by the Policy Planning Staff*¹¹

PPS 39

[WASHINGTON,] September 7, 1948.

THE PROBLEM

To Review and Define United States Policy Toward China.

ANALYSIS

[Here follows general survey of demographic, economic, military, and political conditions in China and of developments since the surrender of Japan.]

⁹ September 6, *supra*.

¹⁰ September 6, not printed.

¹¹ Transmitted to the Secretary of State and the Under Secretary of State (Lovett) by the Director of the Policy Planning Staff (Kennan) with a memorandum dated September 15 as follows:

"Attached is a Policy Planning Staff paper on U. S. Policy toward China (PPS/39), prepared for submission to the National Security Council in response to a request from the Secretary of National Defense.

"This paper was developed in collaboration with FE and the Department's research specialists on China against the background of extensive consultations which we held with several authorities on China from various parts of the United States. Mr. Butterworth concurs with the underlying findings.

"If you approve, PPS/39 will be sent to the National Security Council, to be laid before the NSC Staff as a working paper presenting the view of this Department. George F. Kennan".

This paper was subsequently circulated by the National Security Council as NSC 34.

The Kremlin and China

Before analyzing Soviet objectives and strategy with respect to China, it would be useful to attempt an appraisal of that country from the point of view of the Kremlin.

In economic terms the Kremlin is certainly covetous of Manchuria's, and to a lesser degree, North China's, natural resources, both to deny them to Japan and to develop the Soviet Far East. As for the bulk of China proper, the Kremlin is hardly likely to view it other than as a vast poorhouse, responsibility for which is to be avoided.

Nor is there any reason to believe that the unromantic men in the Kremlin cherish any illusions regarding China's power potential; in any war in the foreseeable future China could at best be a weak ally or at worst an inconsequential enemy. Under certain conditions, however, parts of China, specifically Manchuria and Sinkiang, might serve as an avenue of attack on the USSR by a third power. The Kremlin, extremely sensitive about its land borders, must therefore regard Manchuria and Sinkiang as gaps in its buffer defense zone.

But it is the political situation in China which must arouse the aggressive interest of the Kremlin. In the struggle for world domination—a struggle which the Kremlin pursues essentially through political action (even in civil war)—the allegiance of China's millions is worth striving for. That allegiance is worth struggling for if only to deny it to the free world. In positive terms, China is worth having because capture of it would represent an impressive political victory and, more practically, acquisition of a broad human glacis from which to mount a political offensive against the rest of East Asia.

The Kremlin's objective with respect to China, therefore, is to expand its influence there and eventually to control all of the territory comprising China.

In pursuit of this objective the Kremlin's strategy is to (1) disrupt and then liquidate all active opposition to the expansion of communism and (2) bring under as tight control as possible all native communist elements and their collaborators. In seeking to defeat opposition, two of the most powerful indigenous political forces in China are employed: the sentiment of nationalism (anti-imperialism) is used against foreign opposition and the urge towards reform and a new order is used against native opposition—the National Government. And because one of the cardinal lines of attack is anti-imperialism, the USSR has been extremely careful to avoid any appearance of overt intervention; it has relied on indigenous elements, the Chinese Communists and affiliated groups, to carry on the fight.

The process of bringing the Chinese Communists and their collaborators under Kremlin control has already begun. It has been done,

in at least one case—that of Li Li-san—by introducing a presumed Stalinist into a position of power. It is also being done by a reduction in the size of the territory answerable to the Communists in China proper. This is a bolshevik adaptation of the classic doctrine of divide and rule. There are indications that at least western and northern Manchuria and Sinkiang are intended to be separatist regimes answerable directly to Moscow (thus, at the same time, filling the gaps in the Soviet buffer defense zone). Furthermore the Chinese Communists have been denied overlordship over certain Manchurian Mongols, but permitted so far a communist suzerainty over Jehol Mongols.

It may be asked why such precautions are necessary if, as we are sometimes told, all communist parties—including the Chinese—obediently follow Moscow directives and are abject tools of the Kremlin. The answer is that Stalin and his Politbureau confreres do not have much faith in human nature. Their inclination towards cynicism is confirmed by experience—from the very process through which each of them came to power to the edifying truancy of comrade Tito. It is quite true that a common body of ideology is a strong bond; but to the old conspirators of the Kremlin the questions to ask about any foreign communist party are: who controls the party apparatus; who controls the secret police; who controls (if they exist) the armed forces; and does the foreign leader love power more than he fears the Kremlin?

If the answers to these questions as applied to China are as unsatisfactory to the Kremlin as they turned out to be in the case of Yugoslavia, Moscow faces a considerable task in seeking to bring the Chinese Communists under its complete control, if for no other reason than that Mao Tse-tung¹² has been entrenched in power for nearly ten times the length of time that Tito has.

If on the other hand all elements of the Chinese Communist machine are Kremlin-controlled and Mao is now fearfully loyal, Moscow still cannot be satisfied with the situation. China is too big, too populous. Even Mao and his colleagues cannot be permitted eventually to acquire all of it—the temptation might be too great for them, especially as they would have, in part, risen to power on the heady wine of nationalism. The Kremlin prefers, where possible, not to take chances in such matters.

Finally, it may be said that the primary concern of the Kremlin with regard to China is not how the Chinese Communists can be helped to defeat opposition, to win the civil war—they are doing about as well as could be expected on that score—but how to ensure complete and lasting control over them and their collaborators. No one is more

¹² Chairman of the Central Committee of the Chinese Communist Party.

keenly aware than the Kremlin of the skill, subtlety and patience necessary to accomplish this. Still green in the Kremlin's memory is its own inept 1927 venture in open intervention, its impetuous master-minding of an Asiatic revolution from Moscow, only to have the revolution "betrayed" by an intimate collaborator—Chiang Kai-shek.

The American Role in China

For a century American interest in China has been motivated mostly by trade and idealism. Our idealism has manifested itself in evangelism, advocacy of the American way of life and sympathy for China as a perennial international under-dog.

This approach to China finds its reflection in diplomatic notes, treaties and statements of policy. Secretary Hay formulated at the turn of the century the American principles of equal commercial opportunity in China and international respect for the territorial and administrative integrity of that country. These basic principles were restated and elaborated in subsequent years, most notably in the Nine Power Treaty of 1922.¹³

While traditional American policy did more than is perhaps generally realized to preserve China from classic imperialism, both as a market and as a recognizable geographical expression, it fell far short of achieving its aims. This was so because fundamentally the American estimate of China varied from Chinese realities. With its marginal standard of living, China was not the fabulous potential market that American traders thought it was; in the 1930's our trade with that country was about 4 percent of our total foreign trade.

Nor did China quite fulfill the expectations which flowed from our idealism. The essentially unreligious Chinese proved to be comparatively indifferent to Christian proselytization; the American way of life, with all that it ideologically and materially implied, never became comprehensible, desirable or attainable to more than a minute fraction of the Chinese population; and China failed to develop sufficient unity and strength to defend its territorial and administrative integrity.

Chiang Kai-shek's rise to power in 1925-28 and the establishment of the National Government promised to resolve the U. S. Government's policy frustration, to relieve the U. S. Government from its false position of, what amounted to, almost sole responsibility for maintaining Chinese sovereignty. Here at least was a strong leader who seemed to have a progressive, modern outlook, who became converted to Christianity and who seemed to be capable of unifying his country and defending its sovereignty.

Unhappily Chiang succeeded neither in unifying nor in defending China. Japanese imperialism, communist rebellion and the failure of

¹³ Signed at Washington, February 6, 1922; *Foreign Relations*, 1922, vol. I, p. 276.

the National Government to solve China's politico-economic problems thwarted the grand design.

It is perhaps not surprising that as Chiang's fortunes declined the U. S. Government tended to commit itself more deeply to him, for we had come to equate Chiang with what we sought—a strong unified China. Therefore it was natural that in part as a gesture of faith in the future of the National Government this Government should have insisted in the depths of World War II that China should be accorded the position of one of the five Great Powers of the post-war world. It is also understandable that we should have continued to support Chiang in civil war long after it was evident that he could not win it.

This continuing exclusive commitment to Chiang is understandable, but it is not good diplomacy. It binds this Government to a single course, leaving it no alternative, no latitude for maneuver. This loss of initiative may not be fatal if the tide of events is running in one's favor. In the present situation in China, however, the tide is against us and we need the freedom to tack, or perhaps even to lie at anchor until we are quite sure of our bearings.

CONCLUSIONS

The Distant Future

From the analysis in this paper of demographic and economic factors it is concluded that for years to come China will probably be plagued by (1) an implacable population pressure, which is likely to result in (2) a general standard of living around and below the subsistence level, which in turn will tend to cause (3) popular unrest, (4) economic backwardness, (5) cultural lag, and (6) an uncontrolled crude birth rate.

The political alternatives which this vicious cycle will permit for China's future are chaos or authoritarianism. Democracy cannot take root in so harsh an environment.

Authoritarianism may be able to break the cycle by drastic means, such as forcible "socialization". At best, such measures could be put into effect only at heavy and long protracted cost to the whole social structure; at worst they could provoke such rebellion as to recreate a state of chaos.

The Immediate Future

It follows from the analysis in preceding sections that the Kuomintang and the National Government have so declined in strength that they may be assumed to be on the verge of losing their long struggle with the Chinese Communists.

The question naturally arises: late as it is, might not the Kuomintang and National Government as now constituted yet save themselves and might not American aid reverse the course of the civil war? The

answer to the first half of the question is, "No"; it began to be evident ten years ago and is now abundantly clear that the Chiang-Kuomintang-National Government combination lacks the political dynamism to win out. The answer to the second half of the question is "It might, but only if the U. S. would provide as much aid as was necessary for as long as was necessary".

The aid which we have extended (Annex "A") has been insufficient to check the communist advance, much less reverse its course. How much more aid would be needed is less likely to be a problem of arithmetic progression than one approaching geometric progression. "All-out aid" amounts to overt intervention. Overt intervention multiplies resistance to the intervener. The ramified forces of new nationalism and traditional Chinese xenophobia would be likely to rally to the Communists, whose ties with the USSR are obscured in Chinese eyes by the Communists' violent anti-imperialism. Open U. S. intervention would, as it militarily strengthened Chiang, tend politically to strengthen the Communists. Thus, the more we openly intervened in the deep-rooted Chinese revolution, the more we would become politically involved, the more the National Government would tend to be regarded in Chinese eyes as a puppet—and thus discreditable, the greater our task would become, and the more the intervention would cost.

Eventually, assuming optimistically that the American people did not balk at the political and financial price, that the Communists were defeated on the field of battle and that the National Government was made supreme over a unified China—what then? Would we have ensured that the National Government would not promptly go to pieces on us again? What guarantee would we have that the revolution—the basic causes of which our action could not cure—would not begin all over again, and once more be exploited by the Kremlin? And when could we expect to get out from under the dreary load of political, military and financial responsibility for the National Government of China?

"All-out aid" to the National Government is therefore a course of action of huge, indefinite and hazardous proportions. The American Government cannot rightly gamble thus with American prestige and resources.

We then face up to the probability that the disappearance of the National Government as we now know it is only a matter of time. Just how that change will occur cannot be foreseen. It might be precipitated by any one or more of the following:

- a. The death, retirement or expulsion of Chiang Kai-shek;
- b. A *coup d'état*;
- c. The defection of important Government figures;

- d.* The establishment of a separatist regime or regimes;
- e.* A series of major Communist victories;
- f.* The acceptance of Communist proposals for a coalition government.

However smoothly the change was effected, it would be followed by a confused and fluid situation, even if Vice President Li Tsung-jen quickly succeeded Chiang and the present structure of the National Government was generally maintained. Fighting might continue. More likely, a truce of exhaustion would ensue—for all of China passionately longs for peace. Whichever happens, a new struggle for power would immediately develop on the political plane.

The strongest element in this contest, at least initially, would obviously be the Communists. Other elements would be: certain nationalist military commanders, such as Fu Tso-yi; former provincial war lords, such as Lung Yun; the Kwangsi clique; the North-eastern (Manchurian) faction; the Kuomintang Reform group centered around Li Chi-shen and not a few of the political leaders now prominently associated with the National Government.

It should not be assumed that in such a struggle the non-communist forces would necessarily remain fragmented. That, of course, could happen. But it is perhaps more likely that the centrifugal forces would be overbalanced by those, particularly continuing Communist pressure, which tended to draw most of the non-communist groups together.

Nor should it be taken for granted that the non-communist elements would rapidly succumb to the Communists. They might, of course. But some of them, particularly Fu Tso-yi and the Moslems of Ninghsia and Kansu, with little or no help from Nanking, have shown on a local scale a capacity for coping with the Communists. If these elements band together under capable leadership they might do better than the National Government in holding their ground. Whether they could drive the Communists back is another and larger question.

As for the Communists, the collapse of the National Government would not signalize the end of their troubles, even if they got what they want—a national coalition government. The civil war might, as has been indicated, continue. But that would be a familiar problem in dealing with which they have become highly skilled.

The real trouble which lies in store for the Communists would come with a cessation of hostilities when they would come up against the problems of peacetime government whether over all or part of China. They might not immediately run into all of those problems, but sooner or later they would, if they survived, be confronted by all.

The first problem which they would have to solve in a stabilized situation is a relatively simple one—administration. It is generally

accepted that the Communists lack personnel experienced in national, provincial and urban administration. Their government, even if large numbers of practiced administrators were recruited from outside their own ranks, would likely be inefficient in every respect save political surveillance and punishment. At worst, however, it could scarcely be more inefficient than the present National Government.

Far more serious would be the complex of problems arising from the conflict between their ideology and Chinese realities. Being Marxists the Communists are under intellectual compulsion through socialism to collectivize and industrialize. But it is questionable whether China has, as the USSR did and still does, the demographic and economic elbow-room to succeed in so extravagant an enterprise. Nor is a communist China likely to be helped along by large investments from abroad, least of all from capital-poor Russia. Socialization would then encounter at a minimum the passive drag and sly resistance of Chinese individualism and at a maximum disruptive social revolt.

Now, Mao Tse-tung, who is an exceedingly shrewd judge of his fellow Chinese, might be persuaded of the desirability if not inevitability of gradualness. He might decide that China should socialize slowly. If he did that his movement would run the risk of losing the vitality it now possesses by reason of ideological zeal. It would run the risk of becoming another Kuomintang baffled by and bogged down in China's troubles.

Finally, nationalism would probably prove to be a thorny problem for the Communists. Having risen to power on, in part, a groundswell of nationalism, not only their collaborators but the party members themselves have been infected with Chinese patriotism. So long as they fought, with Soviet support, first against Japan and then against Chiang they could equate nationalism with loyalty to the USSR; there appeared to be identity of interest. But if and when the fighting stops the mantle of rationalization falls to the ground and the ties between the Kremlin and the Chinese Politburo are likely, perhaps suddenly, perhaps gradually, to be revealed for what they are. And if the Chinese Politburo is revealed as subservient in any way to the Kremlin, the Chinese Communist leadership is in for difficulties from the powerful sentiments of nationalism and xenophobia, on the part of both the Chinese public and nationalist elements in the party.

It is a nice piece of irony that at precisely the time the Chinese Communist leadership is most likely to wish to conceal its ties from Moscow, the Kremlin is most likely to be exerting utmost pressure to bring the Chinese Communists under complete control. The possibili-

ties which such a situation would present us, provided we have regained freedom of action, need scarcely be spelled out.

This brings us to conclusions which may be drawn regarding our role in China.

U. S. Policy

The traditional American aims with respect to China—(a) international respect for the territorial and administrative integrity of China, (b) equal opportunity, and (c) encouraging the development of a friendly and unified China—may be accepted as an expression of our long-range aspirations.

Given the realities of the situation in China and the limitations on our own capabilities, it is evident that our traditional aims are not now and will not be for some time to come susceptible of achievement. We therefore need for the foreseeable future a policy which can serve as a pragmatic guide through the Chinese maze.

It would, however, be misleading at this stage to attempt any detailed charting of a course to be followed for the next several years. The current situation is so chaotic and that which would follow the disappearance of the present National Government would be so fluid that any definite prescription for action would be bogus. Until the world situation is much clearer, particularly with respect to the USSR and China, our policy for the immediate future must be defined in the most flexible and elementary terms. For the foreseeable future, therefore, U. S. policy toward China should be:

a. to continue to recognize the National Government as now constituted;

b. with the disappearance of the National Government as we now know it, to make our decision regarding recognition in the light of circumstances at the time;

c. to prevent so far as is possible China's becoming an adjunct of Soviet politico-military power.

Principles Governing U. S. Tactics

In the implementation of the foregoing policy, we should bear in mind the following principles, which should govern our tactics.

We must realize that there are operating in China tremendous, deep-flowing indigenous forces which are beyond our power to control. We must therefore accept the fact that there are considerable limitations on what we can do to affect the course of events in China. If we undertake or are maneuvered into action counter to basic Chinese forces these limitations will multiply and we will tend to defeat ourselves; conversely if we act so as to take advantage of these natural forces our influence will be multiplied.

Likewise, we must understand that the capabilities of the Kremlin to influence and utilize China for its overall purpose are severely qualified by the demographic, economic and political considerations discussed in this paper. It is impossible that the Kremlin could in the space of the next crucial five years mobilize China's resources and manpower to the extent that they would constitute a serious threat to U. S. security. It remains to be proved that the Kremlin could, if it survives as a predatory international force, accomplish this over the long run. If Soviet imperialism does not survive, Chinese communism will be of minor security concern to us for it has potentially grave significance to us only as a possible adjunct of Soviet politico-military power.

It follows from the preceding two paragraphs that China's destiny is largely in its own hands. The salvation or destruction of China lies essentially with the Chinese—not with foreigners.

In long-range planning for other countries of the Far East we must take into account that for some time to come China will be a chaotic and undependable factor on the Far Eastern scene.

Because China is unpredictable, we must not become irrevocably committed to any one course of action or any one faction in China and we must be willing to cut our losses when it becomes evident that any involvement is likely to prove to be a losing proposition.

We must place no reliance on the subjective attitude of any Chinese faction or government toward the U. S. Fear and favor always have and still do control fundamentally the attitude of foreign governments toward us, but only if expertly wielded.

If our strength is to be respected rather than scorned, it must be exercised in a form which is effective; it must not be dissipated by misapplication. There are four general forms in which our strength can be applied: military, economic, political and cultural. We must recognize that our military strength cannot be effectively applied excepting at prohibitive cost. The Kremlin has, by relying primarily on politico-cultural measures and avoiding overt intervention, enjoyed a phenomenal success in riding the ground-swell of the Chinese revolution. In the battle for the mind of China the most effective application of our strength will be through political, cultural and economic forms.

Economic favor becomes tribute if it continues to be given without exactions. While we must have favors in hand, in the shape of economic aid authorizations, for the post-Chiang situation, they must not be pre-committed. The Executive must have the flexibility to give or withhold fully or in part. Only thus will U. S. politico-economic influence be felt.

[Annex A]

Partial Inventory of United States Government Economic and Military Aid to China Since V-J Day

I LEND-LEASE

(including deliveries on 3(c) credit terms)

<i>Purpose Classification</i>	<i>Value</i>
<i>Ordnance and Ordnance Stores</i>	
Ammunition	\$94,297,895.91
Ordnance material	23,533,946.43
Sub-Total	<hr/> \$117,831,842.34
<i>Aircraft and Aeronautical Material</i>	
Aircraft	\$10,833,591.56
Aircraft engines, etc.	15,037,540.68
Accessories & other parts	6,676.52
General aeronautical supplies & facilities	6,745,608.30
Establishment & operation of depots for servicing aircraft	2,498.78
Modernization & reconditioning of completed aircraft	16.06
Cancellation & repossession liability	165.59
Training of personnel	10,308,233.28
Sub-Total	<hr/> \$42,934,330.77
<i>Tanks and Other Vehicles</i>	
Ordnance vehicles	\$200,408.30
Other than ordnance vehicles	67,530,227.77
Trucks	27,895,974.38
Misc. auto supplies, spare parts, etc.	334,289.12
Training of personnel	25,229.81
Sub-Total	<hr/> \$95,986,129.38
<i>Vessels and Equipment for Vessels</i>	
Equipage, services, supplies & materials	\$383,385.11
Freight forwarding	16,000.00
Rental & charter of vessels	9,648,333.33
Ocean transportation of personnel	732,800.00
Pilotage	848.13
Sub-Total	<hr/> \$10,781,366.57

<i>Purpose Classification</i>	<i>Value</i>
<i>Miscellaneous Military Equipment, Supplies and Materials</i>	
Quartermaster equipment	\$50,673,078.87
Clothing	154,847.77
Equipage	5,312.78
Kitchen, mess & Field baking equipment	3,242.23
Fuel	572,728.04
Provisions	360,652.70
Miscellaneous quartermaster supplies	160,534.99
Medical equipment	6,285,432.87
Signal equipment	21,026,869.59
Chemical warfare equipment	10,656,523.99
Engineer equipment	9,292,133.30
Training personnel	587,705.39
General expense	141,686.78
Sub-Total	<hr/> \$99,920,749.30
<i>Facilities and Equipment</i>	
Acquisition of land and appurtenances	\$15,855.04
Machine tools for direct transfer	20,343.70
Sub-Total	<hr/> \$36,198.74
<i>Agricultural, Industrial and Other Commodities and Articles</i>	
Agricultural products & foodstuffs	\$250,183.41
Machine tools	453,211.87
Agricultural implements	2,268.00
Electrical equipment	3,510,757.26
Other machinery	1,362,695.80
Iron and steel	172,298.58
Copper & brass	965,924.44
Aluminum	13,909.26
Zinc	7,202.27
Other metals and alloys	1,769.16
Non-metallic minerals	19,908.62
Chemicals—other than nitrates & phosphates	36,059.20
Petroleum and coal products	100,342.65
Gasoline	17,083,493.44
Petroleum products other than gasoline	5,588,498.70
Rubber and rubber products	1,166,822.43
Textiles and clothing	5,906,910.15
Civilian medical supplies	21,947.02
All other commodities and articles not otherwise classified	71,197.31
Sub-Total	<hr/> \$36,735,399.57

<i>Purpose Classification</i>		<i>Value</i>
<i>Servicing of Defense Articles</i>		
Vessels		\$455. 95
Other defense articles		1, 882. 93
Sub-Total		\$2, 338. 88
<i>Miscellaneous and Contingent Expenses</i>		
Miscellaneous services & expenses		\$322, 133, 387. 36
Subsistence		87, 329. 12
Ocean transportation of personnel		8, 204, 466. 00
Air transportation of personnel		4, 343, 129. 50
Air cargo transportation		780, 040. 48
Cancellation and repossession liability		1, 922, 628. 52
Other miscellaneous and contingent expenses		138, 939. 51
Hospitalization		72, 167. 15
Training of personnel		55, 207. 53
Sub-Total		\$337, 737, 295. 17
Total of Lend Lease		\$741, 965, 650. 72*

II SURPLUS PROPERTY

<i>Item</i>	<i>Sales Price</i>	
<i>A) Surplus and Excess Property Sales on Credit Terms</i>		
Excess stocks of US Army in West China		\$20, 000, 000†
Dockyard equipment for Shanghai and Tsingtao		4, 000, 000
Maritime Commission ship sales		
10 N-3 ships	\$4, 300, 000‡	
10 Liberties & 8 N-3's	9, 300, 000	
8 Cl-M-V1 ships and		
4 Cl-S-AY1 ships	10, 000, 000	
3 VC2-A-P2 ships	2, 600, 000	26, 200, 000§
Total wartime procurement cost of 43 ships: \$77,300,000		

* This figure excludes approximately \$36 million of U. S. Navy vessels lend-leased to China which constituted a portion of the Navy vessels subsequently transferred to China under P. L. 512. [Footnote in the original.]

† In addition, CN \$5.16 billion and US \$5 million down payments made by China as offset against US yuan indebtedness, and latter sum included in considerations of Surplus Property Agreement, August 30, 1946. [Footnote in the original.]

‡ Cash sale, subsequently covered by Eximbank credit. [Footnote in the original.]

§ Of this amount, \$16.4 million is on Maritime Commission credit terms. [Footnote in the original.]

B) *Civilian Surplus Property in China, India, and on 17 Pacific Islands (Agreement of August 30, 1946)*

\$175,000,000

Original cost of this property totalled \$837 million. The sales price represents non-US dollar considerations, of which the equivalent of US \$55 million is being repaid over time in Chinese currency. Of this total, vehicles of all kinds accounted for about one-third, construction equipment about one-sixth, and air force supplies and equipment about one-eighth. The remainder was composed principally of communication equipment, tools, shop equipment, industrial machinery, electrical equipment, medical equipment, and chemicals. As of July 31, 1948, the Chinese Government had taken title to over three-quarters of the total property involved in the bulk sale agreement. The Stillman Mission,¹⁴ however, recently reported that large stocks of surplus property are held idle in Chinese Government warehouses.

C) *Military Equipment and Supplies*

Sold for US Dollar Payments

<i>Description</i>	<i>Procurement Cost</i>	<i>Sales Price</i>
5848 metric tons and 2,567		
long tons ammunition	\$6,486,201.15	\$65,862.02
Military paraphernalia		
and equipment	not available	1,590,231.84
Military equipment and		
paraphernalia	" "	65,081.93
42 P-47-D aircraft and		
53 P-51-D aircraft	" "	544,500.00
255 aircraft engines	" "	396,050.00
85 P-47-N aircraft	7,055,000.00 (approx)	315,000.00
Ammunition (4,128.2 tons)		
declared surplus in Pacific,		
excluding that for 8 $\frac{1}{3}$		
Group Program	not available	not available
(Sold at 1 cent on		
the dollar)		
130 million rounds of		
7.92 rifle ammunition	6,566,589.00	656,499.27
Ammunition (11,400 tons)		
and arms	11,753,697.80	119,330.98

¹⁴ Charles L. Stillman headed the Reconstruction Survey Mission sent to China by the Economic Cooperation Administration.

<i>Description</i>	<i>Procurement Cost</i>	<i>Sales Price</i>
Engine overhaul plant	\$1,360,937.47	\$238,157.25
Arms and ammunition, including 1,036,918 rounds of small arms, ammunition and 200,000 grenades	842,727.50	81,247.34
Equipment for 8½ Group Program	3,600,250.82	630,043.89
Equipment for 8½ Group Program	37,106.19	12,059.51
Equipment for 8½ Group Program	705,486.48	229,283.12
13 C-46 aircraft plus parts and accessories	3,120,000.00 (approx)	292,500.00
Bombs and ammunition, including 2,484,647 rounds of small arms ammunition, 795,003 rounds of artillery ammunition, 60,213 mines, and 29,392 grenades	6,154,795.37	464,351.17
12,128 tons of aviation equipment under 8½ Group Program	7,759,214.57	969,901.85
3,949 tons of ammunition	1,876,775.00	18,767.75
1,500,000 units cal 50 ammunition	225,000.00	2,250.00
Links for 50 cal ammunition	25,300.00	253.00

III NAVAL AID

A) *Sino-American Cooperative Organization Agreement*¹⁵

<i>Item</i>	<i>Amount</i>
Payment of lump sum of expenses of training 40 Chinese students as obligated by article 17, SACO Agreement	\$200,000.00
Equipage, shore bases	585,045.18
Public-works construction and maintenance	79,304.37
Ordnance supplies and equipment	14,284,067.80
Communications	14,746.58
Clothing	2,309.60
Radio equipment and supplies	1,320,664.26
Fiscal codes, aerology	957,782.27
Medical equipment	159,493.57
Aviation supplies and materials	67.25
Furniture and fixtures	63,448.82
Total estimated value of issues, VJ-Day to March 2, 1946	\$17,666,929.70

¹⁵ Sino-American Special [military] Technical Cooperation Agreement signed at Washington, April 15, 1943 (not printed).

B) *Transfer of US Naval Vessels under Public Law 512 (grant)*

[Here follows list of 126 vessels.]

Total procurement cost of above 126 vessels: \$129,565,000. Four additional vessels with a total procurement cost of \$17,600,000 are scheduled to be transferred by January 1, 1949.

IV RELIEF GRANTS

A) *UNRRA (US Share)*

<i>Category</i>	<i>Amount (US\$ million)</i>
Food	95.9
Clothing	81.6
Medical supplies	22.8
Agricultural rehabilitation	52.2
Industrial rehabilitation	120.0
	<hr/>
Sub-Total	372.5
Shipping and insurance	93.1
	<hr/>
Grand Total	465.6

B) *Contribution to Board of Trustees for Rehabilitation Affairs* \$4,700,000

C) *UN International Children's Emergency Fund (approximate US share)* \$2,100,000

D) *US Foreign Relief Program*

<i>Item</i>	<i>Amount</i>
Cereals	\$35,412,900
Seeds	88,400
Pesticides	609,900
Medical supplies	5,185,300
Estimated shipping	5,084,500
	<hr/>
	\$46,381,000

E) *China Aid Act of 1948* \$400,000,000

Of the total of \$400,000,000 authorized under this Act, \$275,000,000 is to be expended by the Economic Cooperation Administration. Of this \$275,000,000, approximately \$205,000,000 will probably be spent on grain, flour, cotton and other current consumables. The remaining \$70,000,000 is earmarked for a variety of reconstruction projects and to the purchase of replacement parts for existing capital equipment. A portion of the funds for reconstruction projects may be pro-

vided on a long-term credit basis. The Chinese Government has indicated that the \$125,000,000 outside the ECA program will be spent exclusively on ammunition and other military items. Of payments already made from this fund, \$3,616,557 has been to cover contracts made by China with OFLC for purchase of military matériel listed above.

V EXPORT-IMPORT BANK CREDITS

(in millions of United States dollars, rounded to nearest decimal)

<i>Borrower</i>	<i>To Finance</i>	<i>Amount</i>
Yungli Chemical Industry	Machinery, equipment & services	16. 0
Central Bank of China	Cotton	33. 0
Republic of China	Cargo vessels	4. 2 ¹⁶
Republic of China	Cargo vessels	2. 6
Republic of China	Generating equipment, materials, & engineering services	8. 8
Republic of China	Railroad repair materials & services	16. 7
Republic of China	Coal-mining equipment, materials, and supplies	1. 5
Total		82. 8

VI AMMUNITION DUMPED AND TRANSFERRED BY THE US MARINES IN NORTH CHINA APRIL-SEPTEMBER 1947

A) The following ammunition was abandoned by the First Marine Division during the months of April-May 1947, in the Peiping-Tientsin Area :

<i>Type</i>	<i>Units</i>
Rockets, HE, AT 2.36 in.	3646
Rockets, HE, AT 4.50 in.	300
20 MM	9493
37 MM	4993
60 MM Mortar	47678
80 MM Mortar	20916
75 MM Gun	5577
105 MM How	64538
155 MM How	18726
155 MM Prop. charge	10725

¹⁶ Represents take-out credit to finance vessels purchased for cash from Maritime Commission. [Footnote in the original.]

<i>Type</i>	<i>Units</i>
Grenades, hand	55529
Grenades, rifle	23038
Demolition blocks	47438
TNT, lbs.	29787
Charges, M-12, prop.	2420
Bangalore torpedoes	3020
Mines, anti-personnel	1014
Mines, anti-tank	2636
Small arms, .30 cal.	2195370
.45 cal.	94100
.50 cal.	225515
Grenade adapters	8592
Flame throwers, portable	35
Flame thrower cylinders	302
Bombs, 500 lbs. GP	62
Demolition charges	3248
Artillery fuses	16975
Pyrotechnics	13174
Blasting caps	32913
Blasting, fuse, feet	100500
Firing Device	2575
Detonators	460
Shaped charges	288
Detonating cord, feet	366200
Firecrackers, M-11	1200
Ignition cylinder, M-1	3000
Napalm, gals.	12751
Bomb fuses, AN, M-230	48
Shells, shotgun, 12GA	9000
Lighter fuse	72581

B) The following ammunition was transferred to the Chinese Navy :

- (1) Ammunition charged to Lend Lease Account, transferred from storage at Tsingtao airfield (previously removed from magazines of vessels transferred) :

<i>Type</i>	<i>Units</i>
3"/50	1246
40 MM	6592
20 MM	169560
50 cal.	38150
45 cal.	250
30 cal.	99000

- (2) Ammunition charged to Lend Lease Account transferred in ships' magazines:

<i>Type</i>	<i>Units</i>
3"/50	1781
40 MM	37767
20 MM	208835
50 cal.	80255
45 cal.	29520
30 cal.	157414
22 cal.	55560

- (3) Ammunition charged to Lend Lease Account, transferred at Shanghai after special shipment from U. S. as training allowance:

<i>Type</i>	<i>Units</i>
3"/50	250
40 MM	100000
20 MM	150000
30 cal.	20000

C) Unserviceable ammunition in the hands of the Fleet Marine Force, Western Pacific, was abandoned by dumping small quantities at a time in revetments near Tsangkou Airfield, Tsingtao. The Chinese National Army Garrison Commander, Tsingtao, was informed of the intention to abandon this ammunition. Dumping operations began on 19 May 1947, and were completed on 13 September 1947. During this period, the following ammunition was dumped:

<i>Type</i>	<i>Units</i>
105 MM Howitzer	24665
81 MM Mortar	30903
60 MM Mortar	28042
75 MM Howitzer	9337
155 MM Prop charge	6485
155 MM Prop charge	929
Grenade, hand, fragmentation	27585
Grenade, hand, all others	13640
Grenades, rifle, all types	9650
Bangalore torpedoes	1810
Small arms, cal. .30, carbine & rifle	1488490
Mines, anti-tank	372
Mines, anti-personnel	686
Shaped charges 40#	634
Shaped charges 10#	200
Grenade adapters, all types	4272
Shell, 37 MM, all types & shot	1035

<i>Type</i>	<i>Units</i>
Rocket, HE, AT	321
Flares, trip, all types	911
Device, firing, pressure type	980
Device, firing, pull type	1410
Device, firing, push type	340
Device, firing, release type	1040
Lighter, fuse, waterproof	102000
Lighter, fuse, friction type	55000
Pyrotechnic signals, ground	1010
Fuse, igniting, hand grenade	7725
Shells, shotgun #00B	720
Cord, detonating, (Prima) 500 ft. spools	280

893.50 Recovery/9-748

The Minister-Counselor of Embassy in China (Clark) to the Director of the Office of Far Eastern Affairs (Butterworth)

NANKING, September 7, 1948.

[Received September 19?]

DEAR WALT: You will have seen from our Top Secret telegram 1614, September 1, the Chinese again reversed themselves from the position outlined in my letter of August 27, and apparently, with the sole motive of getting more military supplies for less money, fell in with the idea of ordering the ordnance alleged to be needed by Fu Tso-yi and at Tsingtao. They even went so far as to override both Barr's and Badger's recommendation that Fu be restricted to four rather than seven armies and to insist on equipment for seven armies, thereby endeavoring to allocate the maximum funds left available from "other aid" for ordnance supplies to this particular project which carried with it the possibility of free transportation and of a cost less than that of replacement.

I am writing you further in this regard because of some of the implications contained in Admiral Badger's Top Secret of September 6, 060005Z, to the Chief of Naval Operations. The message was drafted and despatched while the Ambassador was on a weekend visit to Tsingtao. Badger is most persuasive in his arguments, and having an interest on this occasion in the defense of North China, he found a most ready ear of the Ambassador and consequently obtained the Ambassador's prior approval to the despatch of the cable. When I spoke to the Ambassador about the tone of the cable and the implications of Badger's presuming to speak not only for the Ambassador, but also for the Army Advisory Group and "other responsible

U. S. officials in China", the Ambassador's only comment was: "I am willing to close my eyes to that if he can accomplish the end sought".

In his frequent visits to Nanking and in our trips to Tsingtao, we have sought to coordinate action on these vital problems and to assure agreement on recommendations. Just between us, Badger is too prone to stating a proposition and, even though he doesn't find agreement, close his ears to the opposition and report that everybody agrees with him. That has been the case in the despatch under reference. You will note immediately the inconsistency between our reports of our estimation of the situation in China and Badger's comment that the "Chinese Government has acquired a more aggressive military spirit" in recent days. The Government is showing remarkable courage in enforcing the new economic measures and Chiang Ching-kuo, the Gimo's son, has so far been doing an outstanding job in Shanghai in exposing the big shots to public condemnation, with the result that we may expect the Legislative Yuan to see to it that the guilty are punished regardless of their political influence. Nevertheless, none of us in the Embassy have seen any indication of an improvement in the military spirit which is so essential if anything in the economic field is to be accomplished. There have been no effective steps of which we are aware toward bringing the budget within a reasonable balance, nor have there been steps toward reducing military expenditure. Even the Prime Minister, with a certain sadness, the other day remarked to the Ambassador that unless he was able to get rid of the incompetent military leaders such as Ku Chu-tung, he was afraid nothing could be done to improve the military situation or the cost of the war, yet he could not bring himself to insist to the Gimo that such incompetents be removed. He was thinking of trying to have them elevated to some superior military council where they would have a big name, no duties, yet allowed to keep their accumulated ill-gotten gains, but he still had not gotten up the courage to make such a suggestion to the Gimo. That doesn't sound encouraging in the military field and certainly doesn't lead me to believe that there is any evidence at the moment of a "more aggressive military spirit" in the Chinese Government.

It may be that all of our actions toward bringing to the attention of the Nanking Government the need for convincing Fu Tso-yi that the Gimo was prepared to support him to the extent possible has brought about an easing of the tension between Fu and the Gimo. Nevertheless, I would make the guess that in so far as Fu is concerned, the proof of the pudding is in the eating, and if the Gimo doesn't give him evidence of support soon, Fu's feelings toward the Gimo will remain as we have estimated them heretofore; that is, purely mercenary and self-interested.

A final thing which disturbs me in Badger's despatch is the way he takes in vain the name of the Chief of the Army Advisory Group—Barr, who has been skeptical from the beginning regarding the desirability of the proposed special support to Fu and to Tsingtao, feeling that such action would disrupt the balanced requisition program already launched, and who has (unless I miss my guess) raised no opposition largely because of the Ambassador's strong interest in the subject because he was told that the Gimo had already made his decision on the subject, and because he didn't want to appear obstructive. So far as I have been able to ascertain, Barr is doing a first-rate job as Chief of AAG, in spite of the efforts, whether intentional or not, of the Navy to undermine him, and I hope most sincerely that if there is to be our reorganized military advisory group, it will be under unified control and Barr will be left in command. This is predominantly an army theater of operations and the Chief of such a revised group should be an Army man.

Very sincerely yours,

LEWIS CLARK

893.50 Recovery/9-1348

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 13 September 1948.

DEAR MR. SECRETARY: There is forwarded, for your information, a copy of a memorandum to me from the Joint Chiefs of Staff, dated 9 September 1948, and entitled "Military Aid for Chinese Armies". I have forwarded this memorandum to the Secretaries of Army, Navy and Air Force with the request that they proceed in conformity with the recommendations set forth therein.

Sincerely yours,

JAMES FORRESTAL

[Enclosure]

Memorandum by the Joint Chiefs of Staff to the Secretary of Defense (Forrestal)

WASHINGTON, 9 September 1948.

Subject: Military Aid for Chinese Armies.

At the request of the Chief of Naval Operations, the Joint Chiefs of Staff have considered three dispatches, copies enclosed, received by him from the Commander, Naval Forces, Western Pacific.

It appears from these dispatches that, in order to give priority to the support of his forces in North China and Shantung, Generalissimo Chiang Kai-shek has directed that certain arms, common type, and

ammunition for these forces be requisitioned from the United States. Following this decision, United States Ambassador Stuart, Major General David G. Barr, Chief, Army Advisory Group, China, and Vice Admiral Oscar C. Badger, Commander, Naval Forces, Western Pacific, met and agreed that Admiral Badger should forward to the Chief of Naval Operations their proposal that the United States supply these munitions from United States reserve stocks via Navy or other United States Government shipping consigned to the Commander, Naval Forces, Western Pacific, for custody and as United States agent for delivering to the Chinese.

The Joint Chiefs of Staff have studied this proposal and are of the opinion that, from the military point of view, it is sound and is consistent with the President's recent directive to the Secretary of Defense to take action to facilitate, in connection with the China Aid Act of 1948, the acquisition by the Chinese Government of such military supplies as the Chinese Government may request, either by making available existing stocks of the National Defense Establishment or by arranging for the procurement of such supplies on behalf of that government.

It is understood that the Chinese National Government is handling its requests for military supplies through the Chinese Military Procurement Technical Group in Washington. It is assumed, therefore, that Generalissimo Chiang Kai-shek's requisition for the North China and Shantung supplies will be or is being handled through this same channel. This must, in any case, be done; otherwise there may be confusion or duplication in the requests presented by the Chinese Military Procurement Technical Group and total requests may exceed the authorized sum of \$125,000,000.

In addition to originating a specific request for North China and Shantung military supplies, the Chinese National Government must request that they be shipped to Tsingtao rather than to Shanghai (the usual destination of supplies for China) if, as jointly recommended by the Ambassador, Commander, Naval Forces, Western Pacific, and the Chief of the Army Advisory Group in China, early delivery and direct channeling of equipment to proper military areas are to be assured.

The possibility is noted that some question might be raised as to the propriety, in terms of our policy toward China, of the recommended procedure of shipping the North China and Shantung military supplies to Tsingtao in custody of the Commander, Naval Forces, Western Pacific. This procedure cannot, however, logically be construed as direct military assistance, which we are committed to avoid, while it is, as pointed out above, consistent with the manifest need to

provide military equipment assistance in such a manner as best to insure its usefulness. In the case under discussion, both unacceptable delay and the possibility of diversion of this equipment to other areas will be involved unless the recommended procedure is followed, whereas the North China-Shantung situation is a matter of extreme urgency and importance with respect to the basic purpose for which Chinese military supply equipment has been directed by the President.

Based on the foregoing discussion, the Joint Chiefs of Staff recommended that:

a. Action taken by the several Departments of the National Military Establishment on the latest dispatch from the Commander, Naval Forces, Western Pacific (1933 of 24 August 1948—Enclosure "A") be contingent on receipt through the Chinese Military Procurement Technical Group in Washington of a request from the Chinese National Government for the military supplies and for their delivery at Tsingtao, and

b. The procedure recommended in the dispatch from the Commander, Naval Forces, Western Pacific, be followed as soon as such request has been transmitted by the Chinese Military Procurement Technical Group and necessary authorization has been given by the Department of State.

For the Joint Chiefs of Staff:

WILLIAM D. LEAHY

Fleet Admiral, U. S. Navy

Chief of Staff to the

Commander in Chief of the Armed Forces

[Subenclosure A]

*The Commander of U. S. Naval Forces in the Western Pacific (Badger)
to the Chief of Naval Operations (Denfeld)*

24 AUGUST 1948.

240715Z (or 1933). In conference with Ambassador Stuart and myself Generalissimo affirmed his decision to give priority to support of his forces in North China and Shantung and his desire that certain arms common type and ammunition be made available to him. He stated that he had directed submittal requisition through specified channels for this equipment. His position and urgency situation substantially same as presented my dispatches 160609Z and 090855Z July.^{16a} His statement further indicates method payment by Chinese.

At a subsequent conference between the Ambassador, General Barr and myself it was agreed by all that this project was to best interest

^{16a} See subenclosures C and B, respectively.

of United States position in China as well as Chinese Government. To insure early delivery and direct channeling of equipment to proper military areas conferees recommended that material be supplied from U. S. reserve stock via Navy or other U. S. Government shipping consigned to this command for custody and directly as U. S. agent to Chinese. Will thus avoid shipping complications and delays and assure delivery for purposes intended. Although now based on equipment for 4 complete armies North China and 3 divisions Shantung, proposed procedure gives flexibility which may be needed at a later date as result of readjustment requirements between areas.

Because Navy transportation and supply agencies involved Ambassador and Barr designated originator to present foregoing facts and proposals to Washington with unanimous recommendation that this matter be given earliest consideration and approval U. S. Departments and Agencies concerned. Accordingly, request that Chief of Naval Operations present proposals to State Department, Joint Chiefs of Staff and other interested parties and advise as soon as possible as important operations and training dependent thereon.

[Subenclosure B]

*The Commander of U. S. Naval Forces in the Western Pacific
(Badger) to the Chief of Naval Operations (Denfeld)*

9 JULY 1948.

090855Z (or 8479). A promising opportunity presents itself to increase economic and military security Tsingtao by Chinese training, staging, and offensive operations into now weakened Communist areas of Shantung to include control all Shantung east of Tsinan. Chinese estimate sufficient manpower locally available but lack equipment for 4 divisions (about 48,000 men). In view JCS 83805 ^{16b} and to fact that increased area of control will cause critical and unfavorable economic situation both as regards food and raw materials available Shantung but not Tsingtao would urge support of such offensive effort. Accordingly request your consideration and outline any practicable procedure leading to earliest availability through Chinese or other agencies and thence Tsingtao of all or as much as possible of rifles 48,000 light machine guns 30 caliber 3000 heavy machine guns 30 caliber 576 grenade discharger 2500 and 60 millimeter mortar 1296. Total estimated cost above items two and one-half million U. S. dollars, with similar sum for reasonable ammo supply. Payment on basis cash credits from Chinese funds now available United States

^{16b} Apparently the message for the Commander, U. S. Naval Forces, Western Pacific, p. 320.

for replenishment any withdrawals existing stocks. Ambassador concurs important advantage to United States position of assistance this proposal.

Request earliest advice.

[Subenclosure C]

*The Commander of U. S. Naval Forces in the Western Pacific
(Badger) to the Chief of Naval Operations (Denfeld)*

[TSINGTAO,] 16 July 1948.

160609Z (or 8979). United States interests in Far East are recognized by Joint Chiefs of Staff as being closely related to establishment and maintenance of friendly governments in North China including Shantung. Economically as well as strategically these areas form key to control of China between Yangtse River and Great Wall. No military operations can be decisive without including conquest of these areas.

Although military situation is now unfavorable to Nationalists situation is far from hopeless. In North China is General Fu Tso Yi who is a fighting and accomplished general enjoying confidence and loyalty of his armies as well as civilian population. In March he stated to ComNavWesPac confidence in his ability to maintain security and stabilization of his command area provided he could obtain arms and essential equipment for 4 armies which he had fully trained but which were without equipment. He provided detailed list of equipment needed which I presented to embassy and to Chief, Army Advisory Group (AAG) Nanking with recommendation to initiate positive action to render support to this vitally important command. Generalissimo was given plans by ambassador and expressed verbal approval. However no positive action was then forthcoming from Generalissimo or Chinese chiefs of staff.

Subsequent events indicate that if such action had been then undertaken at an estimated cost of about 16 million dollars U. S. currency that North China would now be fairly well stabilized and secure and it is possible that Mukden Corridor would be open for supply channels to 20,000 troops still in that detached area.

For various reasons Generalissimo failed to support this plan with resulting deterioration in North China, continued detachment of Mukden, and the loss of Shantung to Communist control as a source of important supply of food material and manpower.

Now with situation critical Generalissimo desires to support operations involving security of North China and recovery of Shantung and gives these operations highest priority which they should enjoy. With

above background my 090855Z July ¹⁷ was transmitted as of immediate concern to United States position in China and in Tsingtao in particular. Similar request regarding support of General Fu by facilitating early delivery of urgently needed equipment is justified on same grounds.

ComNavWesPac considers total cost of equipment for these 2 areas amounting only to about 20 million dollars as favorable to United States interest which might accrue. Reduced to simple terms failure of Chinese Nationalists in these areas will inevitably result in loss of all the North China to Communist control and priority of USSR influence. Whether central government continues to exist or whether the government of North China breaks up into provincial governments, assurance of any support being directed to these areas should be guaranteed. It is therefore recommended that all possible means be investigated and a favorable procedure determined for making available to Chinese government for these specific projects amounts mentioned in my 090855Z for Shantung and in addition twice these amounts for General Fu in North China. Material should be made available at earliest practicable date and at lowest possible price. Finding Chinese money to foot bill may be difficult but is considered possible. This recommendation is considered entirely consistent with specific terms of U. S. military policy.

893.248/9-1348

Memorandum of Telephone Conversation, by the Deputy Director of the Office of Far Eastern Affairs (Benninghoff)

[WASHINGTON,] September 13, 1948.

Colonel Sweeney ¹⁸ telephoned to state that he was assisting in the drafting of a letter from General Peter Mow (Chinese Air Force) in which the latter referred to the creation of the 8½ Group Program in 1945 stating that it had never been fully implemented, that recent Communist depredations and the conduct of the civil war in China had created new problems not envisaged in 1945, that therefore a reinvestigation of the whole program was necessary and that it would be advisable to set up a new joint board to investigate the whole problem and to come up with an answer within the next two or three months as to what types of aircraft and other material were necessary and could be supplied, etc. etc. Mr. Benninghoff informed Colonel Sweeney that he could not give an off-the-cuff reply.

¹⁷ *Supra.*

¹⁸ U. S. Air Force.

After consulting with Mr. Sprouse and Mr. Freeman, Mr. Benninghoff telephoned Colonel Sweeney and suggested that he inform General Mow that there would appear to be no necessity for setting up a new board to study the problem as the AAG in Nanking had already been established to consider these very problems. It was further suggested that the Chinese authorities in Nanking should take up the problem direct with the AAG. Colonel Sweeney appeared to understand the import of these suggestions but said that he was "more or less on the spot" and that the Chinese might insist on writing a letter to the Air Force which in turn would, of course, be referred to the State Department. He inquired whether in that event the State Department's reply would be along the lines indicated. Mr. Benninghoff stated that he could not give a categorical reply at this time but that the chances were that such would be the State Department's attitude.

893.20/9-1448

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] September 14, 1948.

Attached is a list ¹⁹ of Chinese requests under the \$125 Million Grants which have been approved by the Department and paid by the Treasury as of September 14, 1948. As of that date, a total of \$47,792,449.94 has been approved and paid in accordance with Chinese requests.

Upon the receipt of a substantiating request from the Navy Department on August 16, a Chinese request for \$2 million of the \$9.5 million allocated for naval supplies was immediately approved by the Department and paid by the Treasury Department into a Naval Working Fund. On August 24, \$4.3 million was similarly transferred to the Navy Department.

On September 9, a Chinese request that \$25 million be paid to the Department of the Army for the procurement of motor vehicle parts, vehicle and weapon tires, and demolition explosives, was received and approved by the Department and was paid by the Treasury Department the following day. Delay in the transfer of funds to the Department of the Army has been due to lengthy discussions between that Department and the Chinese regarding matériel desired and available for transfer. An additional \$3 million has been transferred to the Chinese for the purchase of petroleum products.

To date the Department has approved requests for some \$12 million of the \$28 million allocated by the Chinese for Air Force equipment,

¹⁹ Not printed.

contracts for which were signed, for the most part, with private companies. In general, this money has been committed for aircraft, aviation gasoline, spare parts, and reimbursements to the Chinese for payments made to OFLC under old contracts. The U. S. Air Force is reviewing Chinese Air Force contracts with the intention of assisting in the administration of details in certain instances but indicates that it may take some time to implement a program for the remainder of the Air Force allocation.

As the attached breakdown indicates, Chinese requests have been examined and approved by the Department and payments have been made by the Treasury Department usually within two or three days after receipt of the requests.

893.50 Recovery/9-1348

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, September 17, 1948.

DEAR MR. SECRETARY: With reference to your letter of September 13 with the enclosed copy of a memorandum from the Joint Chiefs of Staff on the subject of "Military Aid for Chinese Armies", I am in agreement with the position of the Joint Chiefs taken in that memorandum.

The fact of the reported presence in the Gulf of Chihli of unidentified submarines and the possibility of Chinese Communist small craft in those waters makes the matter of the transshipment of the munitions from Tsingtao to Tangku a subject for further consideration. It is desirable that we take appropriate steps to insure that the material in question actually reaches General Fu's command at Tangku and I see no reason why American observers might not accompany the shipments in order to insure proper delivery. But I suggest for your consideration the importance of instructing Admiral Badger in the matter of the transshipment of these munitions from Tsingtao to Tangku in order to minimize the hazard of possible United States involvement with Soviet or Communist vessels.

Faithfully yours,

G. C. MARSHALL

Department of Defense Files

The Chinese Ambassador (Koo) to President Truman ^{19a}

WASHINGTON, September 28, 1948.

DEAR MR. PRESIDENT: I have the honor to transmit to you the following message, which I have just received from President Chiang Kai-shek:

^{19a} Copy received in the Department from the Department of Defense in letter of January 3, 1964.

"Because of the recent military reverses due in part to shortage of equipment and ammunition, I am appealing personally to you, Mr. President, to use your influence by every means at your command to hasten the procurement and transportation to Chinese ports, of weapons and ammunition being obtained under the China Aid Program already agreed in principle by the United States Government. These have now become imperative. I am gravely concerned that any further delay in their delivery will have a disastrous effect on the outcome of the present operations. I feel confident that through your direct efforts the aid program will be materially hastened, and I again request your personal intervention in this matter so important to the realization of our common cause. Chiang Kai-shek."

I take this opportunity to convey to you my most respectful regards [etc.]

V. K. WELLINGTON KOO

893.50 Recovery/9-148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 1, 1948—8 p. m.

1388. Response Chinese request Dept Sept 30 authorized Treasury pay direct to Army approximately \$38 million to provide arms and ammo chargeable against \$125 million grants (Deptel 1338 Sept 18²⁰). Army has indicated discussion re prices continuing with Chinese and availability checks in progress to determine source from which stocks will come.

Including this payment disbursements from grants as of Sept. 30 totaled \$88,275,409.62.

LOVETT

893.50 Recovery/9-748

The Director of the Office of Far Eastern Affairs (Butterworth) to the Minister-Counselor of Embassy in China (Clark)

WASHINGTON, October 4, 1948.

DEAR LEWIS: Your letter of September 7 was delayed in reaching me and in the meantime events have somewhat made my reply an obvious one.

By now you will have received the Department's telegram stating that payment has been authorized from the \$125 million grants for approximately \$38 million for ordnance supplies for Fu Tso-yi and Shantung. This authorization was in response to a request received

²⁰ Not printed; it repeated text of memorandum by the Joint Chiefs of Staff, September 9, p. 167.

from the Chinese Military Procurement Mission in which it was stated specifically that the supplies were to be shipped direct to Tsingtao. It will interest you to know that, in contrast to some of the previous requests for payment under "other aid", this request was made up of such immediately useful items as rifles, machine guns, mortars, howitzers, pistols and ammunition for these weapons and would appear more nearly to approximate what the doctor ordered.

Where all of these supplies are to come from has yet to be determined by the Army, which is handling the procurement, but it is expected that the first portion of this shipment will not arrive in China before December 1. As you know, shipment to Tsingtao will be handled by the Navy at no expense to the Chinese. The Department has pointed out to the Military Establishment, however, the advisability of considering means other than U. S. Naval vessels for transshipment from Tsingtao to Taku, although it was stated that there would be no objection to having American military observers accompany the shipment to insure its reaching Fu's command.

We are now well aware of the propensity of Admiral Badger for whipping off telegrams indicating unreserved concurrence by the Ambassador, General Barr, *et al*, where such may not, in fact, be the case, and his messages are therefore accepted by the Department as representing principally the opinion of Admiral Badger until the Embassy and the AAG have been heard from. Your continuing efforts to keep an eye on Badger's messages and to inform the Department where divergence of opinion exists will be very helpful in this regard.

As ever,

W. WALTON BUTTERWORTH

893.24/10-1448

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] October 14, 1948.

Subject: Chinese Military Program under the \$125 Million Grants

Participants: Dr. Shao-Hwa Tan, Chinese Minister
Mr. Butterworth, FE
Mr. Freeman, CA
Mr. Sprouse, CA

Dr. Tan called this afternoon by appointment to discuss the above-mentioned subject. Explaining that Dr. Wang Shih-chieh, Chinese Foreign Minister, had discussed with the Secretary at Paris ²¹ the

²¹ The Secretary of State was attending the third session of the United Nations General Assembly at Paris.

status of the Chinese military program, Dr. Tan stated that he had been instructed by his Ambassador to call in this connection. He said that the Secretary had promised Dr. Wang that he would look into the matter during his brief trip back to Washington ²² and that the arms and ammunition to be purchased by the Chinese for the seven armies and three reorganized divisions in North China would be shipped by U. S. naval vessels free of charge. Dr. Tan said there were two problems in this connection, the price and the transportation by U. S. naval vessels. He then asked if the Secretary had taken up the matter upon his return to Washington.

Mr. Butterworth said that the Secretary had not discussed the matter with him nor had Mr. Lovett indicated that the Secretary discussed the matter with him. Mr. Butterworth went on to point out, however, that the Secretary had not promised that the arms would be shipped by naval vessels free of charge since this was a matter for the National Defense Establishment and referred to a memorandum of conversation between Dr. Wang and the Secretary, dated October 8, in which the Secretary had merely stated that he would look into the matter. Mr. Butterworth then said that he would himself endeavor to ascertain whether the Secretary had taken up the matter and pointed out that the Secretary had been extremely busy during his brief visit and did not have time to go into all the things that he would have wished to take up.

Mr. Butterworth then asked Dr. Tan if he had noted a *New York Times* despatch within the past few days in which a high Chinese Defense Ministry official was quoted as having said that although the State Department had transferred over \$88 million of military aid funds to the Chinese Government since last April, "not a single thing" bought with the funds had yet arrived in China. Mr. Butterworth continued that the Chinese official further stated that he had no idea when the equipment would be forthcoming and that the despatch concluded that it had been learned that the Ministry of Defense did not submit its own final priority list to the U. S. War Department until two weeks ago. Mr. Butterworth pointed out that aside from the questionable propriety of such a statement by a high Chinese official, the report had no basis in fact and requested Dr. Tan to bring this matter to the attention of his Ambassador.

General discussion then followed of Chinese purchases under the \$125 million grants, Mr. Butterworth calling Dr. Tan's attention to

²² In a memorandum dated October 8, Harding F. Bancroft, of the United States delegation to the United Nations General Assembly, reported a conversation between Dr. Wang Shih-chieh and the Secretary of State and stated: "Dr. Wang first raised the issue of some difficulties which the Chinese were encountering in getting arms shipments to China. The Secretary said that he would look into this when he was in Washington over the weekend". (850D.00/10-848)

the circumstance that the Chinese Embassy had only recently submitted its first request for the transfer of funds to the Department of the Army for the purchase of arms and ammunition. Dr. Tan went into a lengthy explanation of this delay and pointed out that an earlier list of such items submitted by the Chinese Embassy to the Department of the Army had been held up because of the question of price.

Mr. Butterworth concluded the conversation with the statement that he would look into the matter of what the Secretary might have done during his recent brief trip to Washington and let Dr. Tan know the results.

893.50 Recovery/10-1448

*The Secretary of State to the Chinese Minister for Foreign Affairs
(Wang), at Paris*

PARIS, October 14, 1948.

MY DEAR DR. WANG: I checked up on the Chinese munitions situation, as you requested, during my brief weekend in Washington. These are the facts as nearly as I could ascertain them:

Ninety-seven of the total 125 million dollars has been released to the Army to meet Chinese requests for material. No request for the remaining 28 million dollars has been submitted by your Government.

Of the 97 millions there has been a delay as to the expenditure of 37 million for small arms because articles could not be found, but I was told that the Army hoped to have a substantial portion of this for expected delivery in China around December 1 next. The State Department is checking further on this.

Faithfully yours,

[G. C. MARSHALL]

893.50 Recovery/8-1648

The Acting Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, October 15, 1948.

DEAR MR. SECRETARY: Reference is made to Secretary Marshall's letter to you of August 13, 1948 and your reply thereto of August 16, 1948²³ with regard to the possible diversion to General Fu Tso-yi of military equipment obtained by the Chinese Government under the \$125 million grants. Reference is also made to the memorandum of the Joint Chiefs of Staff dated September 9, 1948²⁴ approving the recommendation that military supplies destined for north China and

²³ Latter not printed.

²⁴ *Ante*, p. 167.

Shantung be shipped to Admiral Badger in Tsingtao in otherwise empty Navy bottoms without charge to the Chinese.

I understand that the Department of the Army is now in possession of information with regard to the proposed distribution of the military supplies and equipment which are being procured in response to the Chinese request that \$38 million be transferred to U. S. Army funds for the purchase of matériel to be shipped to Tsingtao. This information is to the effect that, in contrast to the original understanding that these supplies would be distributed solely in north China and Shantung, the Chinese have now indicated that the supplies will be apportioned as follows: 30 per cent to Tientsin, 10 per cent to Tsingtao and 60 per cent to Shanghai.

This report is very disturbing to this Department and, if correct, would appear to constitute a vitiation of Admiral Badger's proposal which was concurred in by Secretary Marshall and agreed to by the Joint Chiefs of Staff. As you will recall, the proposal that this matériel be shipped to Tsingtao in U. S. Naval vessels was made in an effort to encourage the Chinese to allot an equitable share of purchases under the \$125 million grants to north China where it was felt that the need was most urgent and the matériel would be used to best advantage. I feel sure that General Barr, Admiral Badger, and your other military advisers in China would likewise be disturbed over this apparent *volte face* on the part of the Chinese with regard to the question of furnishing military assistance to Fu Tso-yi.

If, therefore, the information proves to be correct that the Chinese intend to allot 60 per cent of the \$38 million purchases to the Shanghai area, it is recommended that General Barr be instructed to discuss the question with the Generalissimo and urge that a reconsideration be made with a view to assuring that a more suitable proportion of this matériel reaches Fu Tso-yi. In this connection it might be pertinent to note that the original plan of shipping this matériel to Tsingtao in U. S. Naval vessels at no cost to the Chinese was predicated upon the understanding that the entire amount of the matériel would be distributed in the north China area. Moreover, the recent capture of Tsinan by the Communists has, in my opinion, only served to emphasize the critical need existing in north China for a sufficient supply of arms and ammunition with which General Fu Tso-yi can make a determined stand in the strategic Tientsin-Peiping-Kalgan corridor.

I should appreciate receiving your comment on the above-outlined suggestions.

Very sincerely yours,

ROBERT A. LOVETT

893.24/10-1548

*Memorandum of Telephone Conversation, by the Chief of the Division
of Chinese Affairs (Sprouse)*

[WASHINGTON,] October 15, 1948.

Dr. Tan telephoned this afternoon to inform me that the Chinese Embassy had just received a report from Dr. Wang Shih-chieh, Chinese Foreign Minister, at Paris, saying that he had had a conversation with Secretary Marshall after the latter's return to Paris. Dr. Wang stated that the Secretary had told him that the greater part of the arms and ammunition of the Chinese military program could reach China in early December. Dr. Tan commented that this seemed to be too optimistic since the Department of the Army had indicated to the Chinese here that only a token shipment could be sent out during November.

Dr. Tan asked whether Mr. Butterworth had yet ascertained from Mr. Lovett whether the Secretary had gone into this matter with Mr. Lovett during the Secretary's recent trip to Washington. I told Dr. Tan that Mr. Butterworth had sent a brief memorandum this morning to Mr. Lovett making inquiry in this regard but that I did not know if he had yet received a reply. I said that I would inquire and let him know as soon as possible.

893.50 Recovery/10-1848

*President Truman to President Chiang Kai-shek*²⁵

WASHINGTON, October 16, 1948.

MY DEAR PRESIDENT CHIANG: This is in acknowledgment of your letter delivered to the White House on September twenty-eighth²⁶ through the good offices of your Ambassador, Dr. V. K. Wellington Koo.

I have given very careful thought to this statement of China's situation and have again emphasized to the proper officials the urgency of your need and the necessity for prompt action. I am assured that everything possible is being done to expedite the procurement and transportation to China's ports of the weapons and ammunition being obtained in this country under the China Aid Program.

I appreciate fully your concern and will endeavor in every way possible to effect the full and expeditious implementation of the present program of aid to China.

Very sincerely yours,

HARRY S. TRUMAN

²⁵ Transmitted to the Ambassador in China in instruction No. 213, October 20, with request that this communication be delivered in the manner deemed appropriate.

²⁶ See Ambassador Koo's letter, September 28, p. 174.

811.2393/10-1848

Mr. John R. Steelman, Assistant to President Truman, to the Acting Secretary of State

WASHINGTON, October 18, 1948.

DEAR MR. SECRETARY: By direction of the President, I am sending you herewith, for your information, a copy of a memorandum which he has today forwarded to the Secretary of Defense.

Very sincerely yours,

JOHN R. STEELMAN

[Enclosure]

Memorandum by President Truman to the Secretary of Defense (Forrestal)

WASHINGTON, October 18, 1948.

After conversations with the Director of E. C. A. and his representative in China, I would suggest that the withdrawal from Tsingtao not take place at this time, and that aid to North China be expedited.

HARRY S. TRUMAN

893.50 Recovery/10-1848

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] October 18, 1948.

Subject: Delivery of Military Matériel under the China Aid Program

I telephoned Dr. Tan this afternoon to inform him that Mr. Butterworth had discussed the above-mentioned subject with Mr. Lovett this morning. I further stated that Mr. Lovett had informed Mr. Butterworth that the Secretary had taken up the matter with him during his recent visit to Washington and that Mr. Lovett had given him all information available here. I added that Mr. Lovett had obtained the impression that the Secretary in discussing the matter had not had specific dates for the delivery of the matériel in mind.

Dr. Tan said that the Chinese understood that when the Secretary returned to Paris he wrote a note to the Foreign Minister stating that the "most important part" of the ammunition would reach China by December 1. Dr. Tan said that information obtained here from the Department of the Army indicated that a token shipment was expected to leave the West Coast in early December. I told Dr. Tan that if I received any further information in this regard I would promptly communicate it to him.

893.24/10-2148

Memorandum by the Chief of the Division of Chinese Affairs (Sprouse) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] October 21, 1948.

Mr. McAfee has been in contact with Major Naylor, Logistics, Department of the Army, inquiring about delivery schedules being drawn up by the Army. Major Naylor indicated that on October 20 the Army had a 2-hour telecom conference with SCAP.²⁷ SCAP is prepared to deliver about 10% of the total equipment to China within 25 days. However, in this case SCAP would expect to be reimbursed by the Chinese for shipping costs, etc., and will inform the Army today of estimated costs for such. Major Naylor states that the Chinese have objected to paying these costs since they feel the Navy agreed to ship the goods free. Major Naylor will keep McAfee informed of developments.

Major Naylor indicated that the Army is pushing to the greatest possible degree the assembling of equipment in this country and is not suspending any activities even though SCAP may eventually provide part of the equipment. The Army expects to have all the matériel on the West Coast ready for shipment by November 15 and when the situation clarifies the Army and the Navy may be able to agree on shipment dates which will result in the delivery of some of this equipment to China prior to December 1.

In view of the above, the Secretary's "statement" to the Foreign Minister that a sizeable portion of the goods would be delivered to China by December 1 will likely prove to have been correct. The Department of the Army is in touch with the Chinese on these developments and it does not, therefore, appear necessary for us to inform the Secretary or the Chinese until something more definite is known.

893.50 Recovery/10-2348 : Telegram

The Secretary of State to the Acting Secretary of State

PARIS, October 23, 1948—3 p. m.

[Received 11:14 p. m.]

MARTEL 79. Following is direct quotation from letter 22 October from Dr. Wang, Chinese delegation:

"Regarding the army supplies referred to in your previous letter, I am informed from Washington that 40 percent of the amount agreed upon will be ready for shipment (not delivery) from the West Coast by December 1st and the rest will be ready for shipment there by Janu-

²⁷ Supreme Commander, Allied Powers in Japan (MacArthur).

ary 1st next. I do not quite understand why shipments are to start from the West Coast as my understanding had been that these supplies would come from stocks held on the Pacific Islands. I am sure that you would continue to do what you can to avoid delay."

Wang's information is contrary to what I had told him in my previous letter, based on what my understanding of situation was on my short trip to Washington. Will you please clarify?

MARSHALL

893.24/10-2548

Memorandum of Conversation, by the Secretary of State

[PARIS,] October 25, 1948.

Dr. Wang had lunch with me today and remained about an hour afterwards talking about the general situation.

He made a special appeal for the United States not to issue a public warning to Americans in North China to withdraw, stating that this would have a devastating effect on public opinion. He assured me that his people would give ample warning of the real danger. I told him I had been advised that Dr. Stuart had withheld such an announcement in response to the Generalissimo's request.²⁸

Dr. Wang expressed special concern over the problem of the withdrawal of American troops from Korea. He referred to the conversations his people had had with our representatives here. I told him that we were well aware of the dangers and were not inclined to evacuate Southern Korea if it was apparent that the Communist movement from the North threatened to overwhelm the Southern Korean Government. He talked at considerable length regarding this problem.

In a very mild or rather embarrassed manner he asked me if he could inform the Generalissimo that our Government would support China with both military and economic aid. I asked him what he meant by "military aid". He said that he meant "principally" matériel. I then discussed at considerable length and with great frankness the United States position in the matter,—that we could not involve the Government and the American people with a responsibility probably vast and long-continuing, particularly when the authority with which to despatch that responsibility would be completely lacking. I stated that so long as inefficient or corrupt officials were in places of high responsibility there could be no assurance of recovery, and that the only way this weakness apparently could be overcome would be literally for the United States to take over the

²⁸ For correspondence on this subject, see pp. 859 ff.

Government of China, which, of course, was utterly out of the question from every point of view, particularly the Chinese. I recited my own experiences, with which Dr. Wang was familiar and with which he took no exception. I stated that when I was in China I secured favorable American action on many things of great importance to the recovery of China, that, in effect, I obtained what I could from our Government, having almost solely in mind the recovery of China. I failed to secure a beneficial result. Now my responsibility was to protect the interests of the United States Government which put me in quite a different position from that I occupied in China.

We did not discuss the currency situation because I told Dr. Wang I did not care to do that without the presence of the currency experts, in which he acquiesced.

Before he left he again voiced the hope that the United States could give military assistance to China. Incidentally, Dr. Wang discussed the ineptitude of certain officials, notably the Chief of Staff. He also referred to the efficiency of General Fu in command of North China.

(In order that the foregoing may be better understood, I should state here, and most confidentially, that Dr. Wang in China was my principal supporter and privately and frequently strongly advocated the continuance of my effort there along the lines I was then following. This was not at all in accord with the political advice and military advice the Generalissimo was receiving from his officials, but was very reassuring to me. Naturally, I had to be very silent on this point, because any publicity would be the ruination of Dr. Wang.)

G. C. M[ARSHALL]

893.50 Recovery/10-2348 : Telegram

The Acting Secretary of State to the Secretary of State, at Paris

WASHINGTON, October 25, 1948—7 p. m.

TELMAR 107. Thorough investigation completed past weekend revealed stocks held Pacific could provide considerably less than 10 percent total Chinese requirements under \$37.8 million purchases including only about 1,000 rifles. (MARTEL 79 Oct 23) View administrative difficulties meeting commitment from several sources, Army decided not furnish any stocks from Pacific since requirements could be met more expeditiously from stocks in US. Schedule now provides vessel be loaded West Coast and sail mid-Nov with approx 5,000 tons equipment including bulk ammunition. Shipment should arrive China by Dec 1 or at latest early Dec.

Bulk of balance matériel approx 7,000 tons scheduled two shipments loading West Coast Dec 1 and Jan 1. Shipment loading Dec 1 in-

cludes remaining ammo and 40 percent rifles and small arms; balance small arms being checked and repaired for loading Jan. 1. Army expediting effort prepare this matériel for shipment prior present scheduled date Jan 1. Spare parts and maintenance equipment shipped later when available.²⁹

LOVETT

893.00/11-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 2, 1948—4 p. m.

1527: Dept desires have for transmission Secretary best available estimate losses suffered by Chi Govt during recent campaigns beginning with fall Tsinan to date. Breakdown should indicate, even though rough estimate, losses manpower US trained and equipped units, units equipped US weapons, units equipped with other than US weapons and amount losses military matériel in each foregoing categories. Breakdown should also show estimate losses stores military equipment, including petroleum products.

LOVETT

Executive Secretariat Files : NSC 22

Draft Report by the National Security Council on United States Policy Toward China ^{29a}

[WASHINGTON,] November 2, 1948.

1. In the light of recent developments in China, the National Security Council Staff has prepared, as a matter of urgency, the following draft conclusions as a basis for discussion by the National Security Council at a special meeting on November 3, 1948.

CONCLUSIONS

2. The United States should continue to pursue the following traditional long-range aims with respect to China :

a. To encourage the development of a unified and stable non-communist China friendly to the United States.

b. To encourage international respect for the independence and integrity of China.

c. To prevent threats to our national security which would arise from the domination of China by a hostile military power.

²⁹ In a letter dated October 26 the Secretary of State relayed this information to the Chinese Minister for Foreign Affairs (893.50 Recovery/10-2648).

^{29a} The National Security Council at its meeting on November 3 referred this draft report back to the NSC Staff for revision in the light of the discussion at the meeting.

d. To promote equal opportunity for the commerce and industry of nations throughout China.

3. In the light of existing circumstances and probable developments in the foreseeable future, these long-range aims of the United States with respect to China cannot be achieved for some time to come.

4. Now and for the foreseeable future, the United States should seek to prevent China from becoming an adjunct of Soviet politico-military power. In pursuing this aim the United States should:

a. Furnish limited political, economic and military assistance to those elements which at any particular time appear most likely to resist domination of China by the communists.

b. Maintain flexibility in implementing its policy towards China, avoiding irrevocable commitments to any one course of action or any one faction.

c. Regard assistance to China as subordinate to efforts to stabilize conditions in areas of greater strategic importance to the United States.

5. While the Chinese National Government continues to be the major anti-communist force in China, the United States should:

a. Continue to recognize that government.

b. Continue to furnish assistance to that government on the basis of programs now authorized.

c. Avoid for as long as feasible taking action which would indicate withdrawal of U. S. support from that government.

6. The United States should immediately make plans and preparations to exploit probable developments, through support of the remaining anti-communist forces in the event that the National Government should disintegrate or form a coalition with the communists. The United States should also prepare itself to aid at any time local non-communist regimes, possibly even before final collapse of the National Government, or its coalition with the communists.

7. In the event the present Chinese National Government is transformed into a coalition government which includes the communists, the United States should:

a. Pursue policies toward such a coalition government calculated to weaken and eventually eliminate the communists from the coalition.

b. Withhold any economic or military aid to such a coalition government, except as aid would contribute to the purpose set forth in sub-paragraph *a.* above.

c. Withhold recognition of any such coalition unless circumstances existing at that time indicate clearly that the United States would benefit from such recognition.

8. After a collapse of the Chinese National Government or its coalition with the communists, the United States should:

a. Furnish limited political, economic and military assistance to such of the non-Communist regional regimes as hold out promise of helping to prevent communist domination of China and to weaken and eventually to eliminate communist forces in China.

b. Encourage coordination, collaboration and eventual unification of the regional non-communist regimes.

9. With respect to communist-controlled areas of China the United States should:

a. Conduct aggressive political warfare designed to develop and increase rifts among the various factions in those areas, to the end that the Popular Front be fragmented and the minority Stalinist control isolated.

b. Pursue policies toward those areas calculated to weaken and eventually eliminate communist control.

c. Not accord recognition.

d. Not furnish assistance.

Executive Secretariat Files : NSC 22

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State*

[WASHINGTON,] November 3, 1948.

Subject: NSC Paper on United States Policy Toward China ³⁰

In his telegram (Deptel no. 1180 of August 13 ³¹—Tab A) to Ambassador Stuart, the Secretary stated that it was not likely that the situation would make it possible for us at this juncture to formulate any rigid plans for our future policy in China. He further said that developments in China were obviously entering into a period of extreme flux and confusion in which it would be impossible with surety to perceive clearly far in advance the pattern of things to come and in which this Government plainly must preserve a maximum freedom of action. The Secretary reiterated these views in his recent telegram to Ambassador Stuart on United States policy toward China. ³²

In the light of the above-described statements, the NSC paper appears to plot very rigidly and specifically the courses of action we should take in the immediate future. For example, it states as in (*a*) below:

"Now and for the foreseeable future, the United States should seek to prevent China from becoming an adjunct of Soviet politico-military power. In pursuing this aim the United States should:

a. Furnish limited political, economic and military assistance to those elements which at any particular time appear most likely to resist domination of China by the Communists."

³⁰ *Supra.*

³¹ Vol. VII, 416.

³² See telegram No. 1490, October 26, noon, vol. VII, p. 512.

This recommendation, which does not appear to take into consideration the possible effectiveness of resistance by anti-Communist elements in China, is repeated in two other instances in the NSC paper in slightly varying form. One recommendation suggests that the United States should immediately make plans and preparations to exploit probable developments through support of the remaining anti-Communist forces in the event of a National Government collapse or the formation of a coalition with the Communists. The other recommendation suggests that the United States furnish assistance to such anti-Communist regional regimes as hold out promise of helping prevent Communist domination of China in the event of the National Government's collapse or its coalition with the Communists.

In this general connection, Ambassador Stuart stated in his telegram no. 2003 of October 26 ³³ (Tab B) :

"Any direct military aid to resistance groups on theory that we are fighting Communism all over the world would seem to me unwise. It could only delay their ultimate liquidation and would meanwhile arouse increased anti-American sentiment and expose our nationals in coalition territory to danger. Transportation and other difficulties in reaching these resistance leaders and ensuring proper use of our supplies would be enormous. But chief objection would perhaps be that this is one of negative or vacillating courses which we should at all costs avoid.

"It would seem to me no less undesirable to make any premature announcements as to our intentions or our general opinion of Communism that would endanger our existing national interests in China or embarrass us in future. Whatever influence we may want to exert will be increased if our attitude toward new regime is undefined and flexible."

It is certainly true that we should, as stated in the NSC paper, seek to prevent China from becoming an adjunct of Soviet politico-military power and the only question is one of the tactics to be followed. While plans and preparations should be made against all eventualities, we should not expect that the United States will be able during the immediate future to exert a decisive influence on developments throughout the whole of China. The above-described courses of action recommended in the NSC paper seem desirable, but they should be subject to approval in the light primarily of our national interests and the then existing circumstances. The fact that a faction in China is anti-Communist is not in itself sufficient. While it may be desirable to support one or more anti-Communist factions should the National Government collapse, we should take particular care to avoid so committing ourselves to a course of action or of becoming so deeply involved in the Chinese scene that we succeed only in prolonging an un-

³³ Vol. VII, p. 518.

successful civil war and in thus further weakening the position of anti-Communist elements in China which might eventually provide the basis for effective indigenous resistance to complete Communist domination of that country. Unsuccessful efforts to support remaining anti-Communist elements would be costly in terms of U. S. prestige and expenditure of further U. S. funds.

In summary, it seems desirable that the recommended courses of action following a possible collapse of the National Government be clearly qualified by considerations of our national interests and the circumstances existing at that time.

W. W[ALTON] B[UTTERWORTH]

893.24/11-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 3, 1948—10 a. m.

[Received November 3—2:03 a. m.]

2068. Reurtel 589, October 27, 11 a. m.³⁴ Your assumption correct that any war material now arriving is in accordance Chinese aid program and is therefore consigned to National Government. Embassy is unaware any other shipments. You are also correct stating as long as US recognizes National Government it cannot deal on such matters with any provincial authorities who should make their own requests through National Government.

Sent Peiping 209, repeated Tientsin 196, and Department.

STUART

893.50 Recovery/11-348

The Secretary of Defense (Forrestal) to the Acting Secretary of State

WASHINGTON, 3 November 1948.

DEAR MR. LOVETT: This will reply to your letter of October 15 concerning Military Aid for General Fu Tso-yi and the Nationalist Forces in North China.

In his recommendation upon which the Joint Chiefs of Staff based their action, Admiral Badger stated that the Generalissimo had agreed to the distribution of supplies to Shantung and North China in first priority. It is considered significant that Admiral Badger made no reference to the amount of supplies to be involved.

³⁴ Telegram from the Consul General at Peiping, sent to the Department as telegram No. 393; it reported an approach by a representative of the Shansi provincial government regarding obtaining military supplies (893.50 Recovery/10-2748).

The Joint Chiefs of Staff in their recommendations of 9 September made no reference to either free transportation by the U. S. Navy or the quantity of supplies which should be shipped to Tsingtao for further delivery to the Chinese Armies. They recommended that Admiral Badger's proposal for delivery of supplies to Tsingtao for supervised delivery to the Chinese Armies be approved provided: That the request for such supplies be made by the Chinese Government through the authorized representative in Washington, specifying shipment of the supplies to Tsingtao rather than Shanghai, and that the proposal be approved by the State Department.

On 20 September 1948 the Chinese Ambassador, Dr. Koo, representing the Chinese Government and the Chinese Military Procurement Technical Group in Washington, delivered to me the list of supplies desired by his government as a result of the agreement made by Admiral Badger. With his request the Chinese Ambassador also delivered to me a copy of a memorandum from General Ho Ying-chin dated 30 August 1948 to Admiral Badger, copy of which is inclosed for your information. The Ambassador's request was substantiated by the Chief of the Chinese Military Procurement Technical Group on 24 September in a letter to General Wedemeyer.

At the same time, the Chinese representatives initiated a request to transfer to the Department of the Army \$37,783,386.68 from funds remaining available to the China Aid Program. The Department of the Army was subsequently informed that the destinations, with the approximate percentages of supplies to be shipped to each port, are as follows: Tientsin—30% (to be shipped via Tsingtao), Tsingtao—10%, Shanghai—60%. In keeping with the agreement, the Chinese requested that the supplies for Tientsin and Tsingtao be shipped in first priority. Thus, in my opinion, the Chinese Government has fulfilled the requirements established by the Joint Chiefs of Staff. The Department of the Army and the Department of the Navy are now in the process of carrying out these requests.

These supplies which the Chinese have requested for delivery to Shanghai represent the only weapons and ammunition being delivered to that port as a result of purchases from the \$125,000,000. However, should the total quantity being purchased with the \$37,783,386.68 be delivered to Shantung and North China areas, it is believed probable that no such supplies would become available for distribution by the Chinese through the port of Shanghai because it is understood that these latest purchases practically exhaust the China Aid Fund.

If it is the desire of the State Department that all arms and ammunition being purchased by the Chinese Government with the \$125,000,000 Aid Fund be delivered to North China and the Shantung Peninsula,

it is believed that the Chinese Government should be so informed by the U. S. Ambassador in Nanking. Accordingly, and in view of the restrictions concerning the advice which he is authorized to render, it would appear inadvisable to instruct General Barr to discuss this subject with the Generalissimo urging reconsideration of the requested distribution.

Sincerely yours,

JAMES FORRESTAL

[Enclosure]

The Chinese Minister of National Defense (Ho) to the Commander of U. S. Naval Forces in the Western Pacific (Badger)

NANKING, August 30, 1948.

Subject: Procurement of Weapons and Ammunition for the Chinese Armed Forces

1. In accordance with the conversation of this morning at Dr. Stuart's house, between myself and you, Dr. Stuart, Major General David G. Barr and Lt. General K. M. Cheng, I am submitting this memorandum to confirm the various points on which mutual agreement has been reached.

2. The following points have been mutually agreed upon during the conversation of this morning:

a. The weapons required in this programme for the Chinese Government are still for seven armies and three re-organized divisions (quantities as per Enclosure I ³⁵).

b. The cost of the aforementioned weapons, ammunition, and spare parts and accessories (which will amount to 10 percent of the total cost of weapons) are figured in accordance with the standard list price of 1945 (as per Enclosure II ³⁵) without the addition of 50 percent for price increase.

c. The U. S. Navy will be requested to assist in the transporting of the aforementioned weapons and ammunition free of transportation charges.

d. The total cost of US \$27,199,581.77 as per Enclosure II will be paid out of the fund of the U. S. Military Aid to China Programme.

e. The areas of North-China and Shantung will be given first priority in the distribution of the aforementioned weapons and ammunition for the seven armies and three re-organized divisions. I shall visit these areas in order to determine the actual requirements.

3. Regarding the above, I have recommended to the Chinese Government to cable immediately Dr. Wellington Koo, the Chinese Ambassador to the United States in Washington, to make immediate contact with the United States Government for the release of fund; and

³⁵ Not printed.

therefore, it will be highly appreciated if you will cable the United States Government with regard to the result of this conversation at your earliest convenience so that this programme could be carried out at the earliest possible moment.

HO YING-CHIN
General

893.00/11-648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1948—1 p. m.

[Received November 6—11 a. m.]

2116. In our talk with Premier Thursday (see Embtel 2093, November 4,³⁶ repeated Shanghai 1037) he referred to conversations which FonMin Wang Shih-chieh had had in Paris with Secretary of State³⁷ and Dulles³⁸ covering Japanese peace treaty, disposition of Okinawa and possible action by Chinese Government in event of war between US and USSR. According to Premier, Secretary of State told FonMin that US Government if requested was prepared to send to China outstanding military advisor, specific mention being made of General Mark Clark. Secretary of State also, according to Wong Wen-hao, stated to FonMin that should General Clark be sent to China, US Government would consider it absolutely necessary to have "fullest cooperation" from Chinese Government.

When Ambassador called on FonMin Thursday evening at latter's request he was told among other things of Wang Shih-chieh's two long conversations with Secretary of State in Paris. According to FonMin, he urged that China be included in Marshall Plan as part of global anti-Communist policy and that there be immediate military aid to China based on inspection visit from some high ranking American officer. They discussed Generals MacArthur and Clark. According to FonMin, Secretary of State said that anything of sort would be useless unless Chinese field commanders were compelled to take advice given them. In Marshall-Wang conversations it was considered that visit of General MacArthur (or Clark) would be short one. Wang, who is considering resigning as FonMin, asked Ambassador to transmit following message to Secretary of State:

"FonMin requests (1) your approval military aid and inspection visit high ranking officer, (2) your advice whether China should take

³⁶ Not printed.

³⁷ Memorandum of conversation on September 28, regarding Korea, European Recovery Program, and Japanese Peace Treaty, not printed (893.50 Recovery/9-2848).

³⁸ John Foster Dulles, U. S. Delegate to United Nations General Assembly.

up in UN Soviet violations of treaties regarding China and more especially Manchuria."

Department's comments would be appreciated.

Repeated Paris for the Secretary.

STUART

893.00/11-648: Telegram

The Secretary of State to the Acting Secretary of State

PARIS, November 6, 1948—3 p. m.

[Received November 6—11:12 a. m.]

MARTEL 111. Dr. T. S. Tsiang, Chinese delegate to UN, called on me this morning with a message from Foreign Minister Dr. Wang:

(1) Would US agree to appointment of US officers in actual command of Chinese army units under pretense of acting as advisers?

(2) Would US appoint officer of high rank to head special mission primarily for advice and planning on emergency situation?

(3) Will US expedite supply of munitions?

(4) What was thought as to advisability of Chinese appeal to UN because of Soviet training and equipping of Japanese military and also Koreans?

I explained efforts regarding (3) (supply of munitions) and stated I would request you to press for urgent action. I did not offer encouragement beyond present efforts.

I said I would refer requests under (2) and (3) to Washington without making any comment reference (1).

I remarked regarding (2) that proposition inherently involved great difficulties if favorably considered; that if individual did not know China it would require months for him to grasp understanding of possibilities of situation, and it would therefore be a very serious matter for US to send an officer to almost certain failure.

Regarding (4) I said I would have to consult my colleagues of US delegation to develop various possibilities; that offhand I thought it an inadvisable procedure and discussed possible Soviet moves to take advantage rather than to counter such a move. Dr. Tsiang told me the proposition had been put to him three times and each time he had recommended against such action.

MARSHALL

893.00/11-648: Telegram

The Acting Secretary of State to the Secretary of State, at Paris

WASHINGTON, November 7, 1948—noon.

TELMAR 139. I assume that since you despatched MARTEL 111 Nov 6 you have seen Nanking tels 2116 Nov 6 (rptd Paris), 2117 Nov 6³⁹

³⁹ Vol. VII, p. 543.

(rptd Paris TELMAR 136) and 2119 Nov 6 ⁴⁰ (rptd Paris as 8). Nanking's 2003 Oct 26 ⁴¹ (rptd Paris TELMAR 115) also pertinent.

Following suggested reply to Amb Stuart has been formulated but before taking it up with Secretary Forrestal and White House, I should like know whether has your approval:

"Urtel 2117 November 6 shows why visit high-ranking US officer to China would be undesirable and unproductive. Even if record of repeated failure Chi Govt in past to accept US advice did not exist, it would be foolhardy for US at this stage of disintegration Chi Govt authority in civil as well as mil sphere to embark upon such a quixotic venture. We are doing everything possible expedite shipment military matériel under \$125 million grants. Pattern defections and other accompaniments fall Tsinan, Chinchow and Manchurian debacle although Chi Govt troops had adequate arms indicate will to fight lacking. With respect Chi Govt appeal to UN re Soviet treaty violations, this is matter for Chinese decision but could not be expected change internal situation China.

You are authorized inform FonMin Nat Mil Establishment making every effort expedite shipments mil matériel under \$125 million grants. You should point out to him inherent difficulties involved in attempt on part foreign official advise Chi Govt regarding its courses of action even in unlikely event such official could be completely conversant with all complexities situation and even greater difficulties for foreign official not familiar with China. You should state that it is not believed inspection visit high-ranking US officer would or could offer solution China's problems. With respect Chi Govt appeal to UN you should reply in sense final sentence preceding paragraph."

With respect Chen Li-fu's suggestion described Embtel 2119 November 6, we suggest this be ignored. You will recall President's statement at press conference Mar 11, 1948 ⁴² that broadening base Chi Govt did not mean inclusion Chinese Communists and that he did not want Coms in Chi Govt or anywhere else. Also pertinent is urtel 1180 Aug 13 to Amb Stuart ⁴³ stating that it is not likely situation will make it possible for us at this juncture formulate any rigid plans for our future policy in China and that developments in China are obviously entering into period extreme flux and confusion in which it will be impossible with surety perceive clearly far in advance pattern things to come and in which this Govt plainly must preserve maximum freedom action. This view was repeated to Amb in Deptel 1490 Oct 26.⁴⁴

WashPost today carries despatch UP Shanghai Nov 6 dateline quoting a Chinese official source Shanghai as stating Sec Marshall had

⁴⁰ Vol. VII, p. 544.

⁴¹ *Ibid.*, p. 521.

⁴² *Ibid.*, p. 141.

⁴³ *Ibid.*, p. 416.

⁴⁴ *Ibid.*, p. 512.

reversed his stand on aid to China and had now decided on all-out and immediate aid to China and had so informed FonMin in Paris. It is suggested you may wish include in tel to Amb Stuart comments on FonMin allegations regarding what you told him as reported in Nanking's 2116 of Nov 6.

LOVETT

893.00/11-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 8, 1948—3 p. m.

[Received November 8—8:09 a. m.]

2132. Shanghai papers, November 7, carried Nanking dateline UP story that Secretary State is understood to have revised his former standard [and] now favors "all-out and quick aid to China". Story says Secretary State made known his attitude to Chinese Foreign Minister at Paris.

According to reliable sources, UP obtained this information directly from Foreign Office press officer who accompanied the Foreign Minister to Paris. As Department will recall, Foreign Minister did make similar statements to Generalissimo and to me (see Embtel 2116, repeated Paris 7, November 6, 1 p. m.) We believe this kind of publicity in part is another desperate move to revive public morale, and in part is designed to implicate US in current failures and provide a scapegoat.

STUART

893.00/11-848 : Telegram

The Secretary of State to the Acting Secretary of State

PARIS, November 8, 1948—9 p. m.

[Received November 8—6:36 p. m.]

MARTEL 115. Reference your TELMAR 139. I have seen all the reference messages, but it does not appear that Stuart has seen my MARTEL 111. Please have it repeated to Stuart, plus whatever additional views Department may have, repeating the latter to me. This will answer his 2116 in part, and following redraft your TELMAR 139 should complete the matter. As to Chen Li-fu's suggestion, I agree with you that it should be ignored. Also ignore obviously false *Washington Post* story. Follows now redraft of proposed message to Stuart:

"Urtel 2117, November 6,⁴⁵ indicates why visit high-ranking US officer to China would be undesirable and unproductive. It would be

⁴⁵ Vol. VII, p. 543.

most unwise for us at this stage of disintegration Chinese Government authority in civil, as well as military, sphere to embark upon such a quixotic venture.

We are doing everything possible expedite shipment military material under \$125 million grant. Material was quite evidently not reason for fall of Tsinan, Chinchow, and Manchurian debacle. Government troops had adequate arms but evidently lacked will to fight. With respect Chinese Government appeal to UN re Soviet treaty violations, this must be a matter for Chinese decision. It could not be expected change internal situation China, and might well involve actual Soviet participation in solution on the ground under possible UN procedure. Inform Foreign Minister national military establishment making every effort expedite shipments military material under \$125 million grant. Point out inherent difficulties involved in attempt on part newly appointed foreign official to advise Chinese Government regarding its courses of action in present dilemma, even if such official would be completely conversant with all numerous complexities of situation, and point out even greater difficulties for foreign official not familiar with China.

With respect Chinese Government appeal to UN, you should reply in sense foregoing third paragraph."

MARSHALL

893.00/11-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 9, 1948—10 a. m.

[Received November 9—9 a. m.]

2142. In Tsinan, Liaoning corridor, Changchun and Mukden battles, Nationals lost 8 US trained divisions with 85 percent US equipment totalling 84,000 men, 1 US trained division with 50 percent US equipment totalling 15,000 men, 2 US trained divisions with 30 percent US equipment totalling 22,000 men and 22 divisions without American training or equipment totalling 202,000 men.

Equipment losses these battles include: rifles, 97,500 American and 136,500 other origin; light and heavy machine guns, 920 American and 14,000 other origin; 45 caliber sub-machine guns, 26,000 unknown origin; grenade throwers, 1700 American and 2200 other origin; 60 mm. mortar, 3160 unknown origin; 80 mm. mortar, SCN [garble] not American; 81, 82, 150 mm. mortar, 1200 unknown origin; 4.2 mortars, 65 American; anti-tank guns, 115 American and 335 other origin; 75 mm. howitzer, 115 American and 226 other origin; 105 mm. howitzer; 46 American; 155 mm. howitzer, 36 American; 50 caliber anti-aircraft machine guns, 12 American; anti-aircraft guns, 127 not American; 6451 pistols, not American. Ammunition losses in rounds total: 160,000,000 small arms, 250,000 mortar, 80,000 field guns, 210,000 howitzer, 600,000 grenades.

Above totals are estimates of unit equipment based on best available data. No information available on losses of material in other than those categories listed. Losses do not include miscellaneous units, strength and equipment of which unknown. Miscellaneous units, and non American trained divisions listed above, all had varying amounts American equipment. Practice has been [to] withdraw some American equipment from units originally American trained and supplied for assignment to other units and replacement this equipment by items of other than American origin. Also totals do not include reserve stocks spare parts, and so on of both American and non American origin which were held in large but unknown quantities in depots at Tsinan, Mukden and possibly at Chinh sien. Virtually no destruction of equipment accomplished at any point by Nationals prior to their surrender.

Also aircraft losses total about 25 abandoned on fields, lost to anti-aircraft fire or deliberately landed in Communist territory. China Air Force losses aviation gasoline total 290,000 gallons. Gasoline losses commercial airlines unknown as are losses pol⁴⁶ for motor transport.

Above compiled from data furnished by Military Attaché and replies to Deptel 1527 of November 2.

STUART

893.00/11-948

*Memorandum of Conversation, by the Secretary of State*⁴⁷

[PARIS,] November 9, 1948.

Participants: Dr. Tingfu F. Tsiang, Permanent Representative of China to the United Nations
The Secretary
Mr. Jacobs

Dr. Tsiang called this afternoon in connection with the four points which were the subject of his call on November 6th.⁴⁸

I said that I had received a reply from the Department and proceeded to take up the last three points first. Concerning the second point I said that the Department viewed unfavorably the appointment at this time of a high ranking officer to head a special mission to China due, first, to the difficulty of finding such an officer with adequate current grasp of the situation in China to act promptly, and thus

⁴⁶ Petroleum, oil and lubricants.

⁴⁷ Drafted by Joseph E. Jacobs, of the American delegation at the United Nations General Assembly.

⁴⁸ See No. MARTEL 111, November 6, 3 p. m., to the Acting Secretary of State, p. 193.

effectively in the present emergency, and second, for the foregoing reason, the efforts of such an officer would be foredoomed to failure.

Concerning the third point, I said the Department had advised that the flow of munitions was being expedited but I had no information concerning quantities.

Concerning the fourth point, I said that the matter of a Chinese appeal to UN at this time was one within the competence of the Chinese Government but, as I had already told Dr. Tsiang, we did not feel that it would accomplish any good in meeting the present emergency, while on the other hand it might do some harm by giving the Soviets an opportunity to take advantage of the situation.

I then turned to the first point (relating to the appointment of US officers in actual command of Chinese army units) and said that the Department had said nothing, apparently feeling that it required no answer. I remarked that I had asked for clarification but expected a negative reply since the action contemplated presented complications which made it undesirable.

We then discussed in a general way the military situation in China as we knew it without reaching any conclusions except to observe that, without knowing how much matériel and how many men the Nationalist Armies had lost in Manchuria and how much matériel and men still remain in central China to oppose the Communist advance toward Nanking, it was most difficult to assess the situation.

893.00/11-648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 9, 1948—6 p. m.

1577. Following is summary Secy's conversation with T. F. Tsiang rptd accordance his instructions as partial reply urtel 2116 Nov 6 and you may refer to Secy's comments therein in your conversation with FonMin:

[Here follows text of telegram No. MARTEL 111, November 6, printed on page 193.]

Point (1) raised by T. F. Tsiang is considered to be adequately covered by Secy's personal tel to you Deptel 1490 Oct 26.⁴⁹

Secy authorizes following message as further reply urtel 2116:

[Here follows text quoted in telegram No. MARTEL 115, November 8, 9 p. m., printed on page 195.]

LOVETT

⁴⁹ Vol. VII, p. 512.

893.00/11-1148

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] November 11, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
The Acting Secretary, Mr. Lovett
Mr. W. W. Butterworth, Director for Far Eastern Affairs

At his request, the Chinese Ambassador called upon me this morning and he sought to obtain, in advance of the reply by the President, an indication of its possible nature or, at any rate, of the attitude which I might take in offering advice to the President as to the content of his reply to the Generalissimo's message.⁵⁰ The Chinese Ambassador probed away for the better part of an hour but beyond informing him of the reply which Ambassador Stuart had been authorized to make to the Chinese Foreign Minister (Deptel to Nanking no. 1577, November 9) apropos of the questions which the Foreign Minister had asked be transmitted to the Secretary and the questions which Mr. T. F. Tsiang had, also under instructions, put to the Secretary, I refused to prejudge the nature of the communication the President would make in due course.

Dr. Koo having argued strongly in the early part of the conversation as to the decisive effect which a statement of policy by the President would have in China and the importance of the sending of a high-ranking American officer accompanied, as he indicated, by a full staff, in the latter part of the conversation, in praising the efforts of Fu Tso-yi he reflected by comparison adversely on the manner in which many other Chinese military leaders had failed to consider the importance of the welfare and support of the local people. Dr. Koo mentioned Fu Tso-yi by way of illustrating that the Chinese Government would be agreeable to our ensuring that supplies reach such local commanders. In this connection, I pointed to Mr. Hoffman's⁵¹ recent statements regarding ECA policy and the conscientious manner in which we had acted, rendering support to strengthening the authority of the National Government and correspondingly refraining from any actions which might be misinterpreted as weakening it. Pressed as to whether he was proffering this suggestion under instructions from his Government, Dr. Koo backtracked and ended by emphasizing that what he meant was that his Government would give great weight to any suggestions for supplying local commanders such as Fu Tso-yi but would, of course, expect consultation and its concurrence.

⁵⁰ For latter, see telegram No. TELMAR 155, November 12, 8 p. m., to the Secretary of State, at Paris, p. 201.

⁵¹ Paul Hoffman, Administrator of the Economic Cooperation Administration.

As a sidelight on how the Chinese Ambassador's mind was working, when Mr. Butterworth accompanied him to the elevator Dr. Koo asked about the news we were receiving from Mukden and whether the Communists were governing the city in a reasonable and orderly fashion.⁵²

The Chinese Ambassador in the course of his visit also inquired, in effect, whether the United States proposed to remain in Tsingtao and defend its position. I replied to Dr. Koo by calling his attention to the fact that the U. S. Government was in Tsingtao in connection with the program of training Chinese to man the ships that his Government had transferred to it and was there at the request of his Government. It had always been clearly understood by all concerned that the responsibility for the defense of Tsingtao remained with the Chinese Government and that, therefore, the tenability of the position of the United States Navy in Tsingtao depended upon Chinese Government action.⁵³

S93.00/11-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948—1 p. m.

[Received November 12—3 : 36 a. m.]

2183. Recent press reports concerning earlier discussion between Chinese Foreign Minister and Secretary of State and current discussion between Chinese UN delegate and Secretary of State (see Embtel 2132 of November 8 and 2182 of November 12⁵⁴) have been so displayed and presented in vernacular press to create impression that big new economic and military loan to China either has been or is about to be granted. While press stories themselves, if read in detail, indicate that any alleged discussions are result of Chinese advances and Chinese plans which are still in discussion stage, presentation by official organs of press is such as to mislead casual reader. Such impression obviously designed to bolster sagging morale and confidence in Government this critical phase.

Sent Department, pass Paris 10 for UN Delegation.

STUART

⁵² For further correspondence regarding the Consulate at Mukden, see vol. VII, pp. 809 ff.

⁵³ For further correspondence regarding U. S. policy on Tsingtao, see pp. 307 ff.

⁵⁴ Printed on pp. 195 and 428, respectively.

893.00/11-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948—1 p. m.

[Received November 12—3:41 a. m.]

2184. ReEmbtel 2183, November 12 and Deptel 1577, November 9, 6 p. m. Washington, London and Paris news stories published yesterday on the alleged discussion between Secretary State and Chinese Foreign Minister appear to us to be an extension of previous reports along same line and to be designed in part, at least, to firm up public morale with the idea that, bad as present conditions are, they are not hopeless because American aid is coming. Also involved, of course, are Chinese self delusion and the desire to put us in position where it would be committed to further aid.

Y. T. Tsur, Minister of Health, this morning informed Ministry employees that current panic among Chinese is totally unwarranted. He said Generalissimo had told him personally that there is neither any immediate threat to Nanking nor any remote possibility thereof. The Generalissimo added he had categoric assurances from US of \$900 million loan and that large scale rice purchases abroad would soon solve food crisis.

In order to forestall additional unfortunate speculation, Embassy suggest Department may wish to consider putting out some kind of public statement.

STUART

893.50 Recovery/10-1648 : Telegram

The Acting Secretary of State to the Secretary of State, at Paris

WASHINGTON, November 12, 1948—8 p. m.

TELMAR 155. 1. Following is message from Gimo to Pres delivered by Amb Koo Nov 9:

"I have the honor to acknowledge receipt of Your Excellency's reply dated October 16, 1948, for which I am deeply grateful.

The Communist forces in Central China are now within striking distance of Shanghai and Nanking. If we fail to stem the tide, China may be lost to the cause of democracy. I am therefore compelled to send to Your Excellency again a direct and urgent appeal.

The general deterioration of the military situation in China may be attributed to a number of factors. But the most fundamental is the non-observance by the Soviet Government of the Sino-Soviet Treaty of Friendship and Alliance,⁵⁵ which, as Your Excellency will doubtless recall, the Chinese Government signed as a result of the well-

⁵⁵ Signed at Moscow, August 14, 1945, *United States Relations With China*, p. 585, or United Nations Treaty Series, vol. 10, p. 300.

intentioned advice from the United States Government. I need hardly point out that, but for persistent Soviet aid, the Chinese Communists would not have been able to occupy Manchuria and develop into such a menace.

As a co-defender of democracy against the onrush and infiltration of Communism throughout the world, I appeal to you for speedy and increased military assistance and for a firm statement of American policy in support of the cause for which my Government is fighting. Such a statement would serve to bolster up the morale of the armed forces and the civilian population and would strengthen the Government's position in the momentous battle now unfolding in North and Central China.

My Government would be most happy to receive from you as soon as possible a high-ranking military officer who will work out in consultation with my Government a concrete scheme of military assistance, including the participation of American military advisers in the direction of operations.

As the situation demands Your Excellency's full sympathy and quick decision, I shall appreciate an early reply. Chiang Kai-shek"

2. Following is message to Gimo sent by the Pres on Nov 12 to Amb Stuart for delivery:

[Here follows text of telegram No. 1608, November 12, 7 p m., printed *infra*.]

LOVETT

893.50 Recovery/11-1248: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 12, 1948—7 p. m.

1608. Under instructions from the President please deliver following message to President Chiang Kai-shek:

"My dear President Chiang: This is in acknowledgment of your letter delivered to the White House on November 9⁵⁶ through the good offices of your Ambassador, Dr. V. K. Wellington Koo.

As I stated in my letter of October 16, 1948, everything possible is being done to expedite the procurement and shipment to China of the weapons and ammunition being obtained in this country under the China Aid Program. I am again emphasizing to the appropriate officials the urgency of your needs and the necessity of prompt action. In this connection, I have just been informed that one shipment of arms and ammunition sailed from Guam on November 4 and another from Japan on November 7 en route to China. I have also been informed that a further shipment of ammunition sailed from the West Coast of the United States on November 9 and is scheduled to reach China about November 24.

A message of November 9 from the Secretary of State to Ambassador Stuart, containing Secretary Marshall's reply to a request from

⁵⁶ For text, see telegram No. TELMAR 155 to the Secretary of State, *supra*.

the Chinese Foreign Minister for military aid and the visit of a high-ranking United States officer to China, apparently crossed Your Excellency's message in transmission. The Secretary authorized Ambassador Stuart to inform the Foreign Minister that the United States National Military Establishment was making every effort to expedite shipments of military matériel purchased in this country under the China Aid Act. He also authorized Ambassador Stuart to point out the inherent difficulties involved in an attempt on the part of a newly appointed foreign official to advise the Chinese Government regarding its courses of action in the present dilemma, even if such an official would be completely conversant with all the numerous complexities of the situation, and to point out the even greater difficulties for a foreign official not familiar with China.

However, Major General Barr, Director of the Joint United States Military Advisory Group in China, is conversant with the current situation and his advice has always been available to you.

Your attention may have been called to my public statement on March 11, 1948,⁵⁷ in which I stated that the United States maintained friendly relations with the Chinese Government and was trying to assist the recognized Government of China maintain peace. I also stated that I did not desire Communists in the Chinese Government. Secretary Marshall stated publicly on March 10, 1948,⁵⁸ that the Communists were now in open rebellion against the Chinese Government and that the inclusion of the Communists in the Government was a matter for the Chinese Government to decide, not for the United States Government to dictate. I believe that these statements and the action of my Government in extending assistance to the Chinese Government under the China Aid Act of 1948 have made the position of the United States Government clear.

You will understand the desire of the United States Government to support the cause of peace and democracy throughout the world. It is this desire that has led this Government to extend assistance to many countries in their efforts to promote sound economies and stable conditions without which the peoples of the world cannot expect to have peace and the principles of democracy cannot grow. It was with that hope that the United States Government has extended assistance in various forms to the Chinese Government. I am most sympathetic with the difficulties confronting the Chinese Government and people at this time and wish to assure your Excellency that my Government will continue to exert every effort to expedite the implementation of the program of aid for China which has been authorized by the Congress with my approval.

Very sincerely yours,

Harry S. Truman"

LOVETT

⁵⁷ Vol. VII, p. 141.

⁵⁸ *Ibid.*, p. 138.

893.00/11-1348

Memorandum of Conversation, by the Secretary of State

[PARIS,] November 13, 1948.

Participants: Dr. Tingfu F. Tsiang, Permanent Representative of
China to United Nations
The Secretary
Mr. Jacobs

Dr. Tsiang called this morning and presented an *Aide-Mémoire*⁵⁹ which he stated he had been instructed by his Government to hand to me. I showed Dr. Tsiang a telegram containing the text of a message which Generalissimo Chiang Kai-shek had sent to President Truman, and the President's reply. Dr. Tsiang read these documents while I read the *Aide-Mémoire*.

I then stated that the *Aide-Mémoire* dealt with various matters which I could not answer at once because the proposals, both military and economic, were of a nature which would need careful consideration.

I then referred to one of the points which had been discussed in Dr. Tsiang's previous visit and said that while the United States did not look with favor on sending of a high ranking U. S. military officer to China, I had been thinking of sending General McClure out as he had been directly associated with Ho Yin Chin in directing the fighting and training of Chinese divisions during the war.

The conversation then turned to the military situation in China and as I found that I was doing most of the talking I asked Dr. Tsiang what he thought the United States might put in a statement which the U. S. might issue at this time. Dr. Tsiang replied that the most heartening thing that could be said would be an announcement by the President or me that the United States considers the combatting of Communism in China equally as important as combatting Communism in Europe.

There was some discussion of the implications of such a statement, particularly an implied obligation for greater financial and other assistance on the part of the United States than Congress would be persuaded to approve. I pointed out that we were already giving large sums to China and other Far Eastern countries and that when our assistance to all such countries, including Japan is added together, it adds up to a formidable amount.

Dr. Tsiang then said that strong pressure was being brought to bear in Nanking to have him bring before the UN the question of Soviet assistance to the Chinese Communists. He said that, as he had pre-

⁵⁹ Not found in Department files.

viously told me, he himself was against this move. I told Dr. Tsiang that I agreed that no good could come of such an approach and that much harm might result by bringing the Soviets directly and openly into the picture, but the decision must be for the Chinese.

On leaving we happened to mention the supplies now going to China and Dr. Tsiang said that he understood that his Government approved their shipment to Tsingtao. I said that was the present arrangement, that I had said nothing to alter it.

S93.00/11-1248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 15, 1948—2 p. m.

1616. Following is reply urtel 2184 Nov 12 authorized by President :

"In view of serious harm public statement along lines suggested by you would cause to Chinese Government, it is not desirable to issue such statement. As you no doubt realize no such assurances have been given. However, in your normal functioning as Ambassador, you should ensure in conversation with concerned Chinese officials that the actual position of your Government is understood, pointing out that except for the China Aid Act of 1948 which the US Government is making every possible effort to implement expeditiously, there is no Congressional authority on which assurances of such additional future aid could be based."

LOVETT

S93.50 Recovery/11-1648

Memorandum of Telephone Conversation, by the Deputy Chairman of the Policy Committee on Arms and Armament (Swett)

[WASHINGTON,] November 16, 1948.

Col. Freeman ⁶⁰ phoned in the late afternoon, 15 November, with reference to priority to be given to implementation of the \$125,000,000 military assistance authorization for China. He referred to the Secretary's letters of August 9 and 13 ⁶¹ concerning order of priorities for implementation of military assistance programs, and asked whether the Department would concur in giving China an overriding priority above Greece and Iran at this time, particularly since the \$125,000,000 authorization expires in April. He mentioned particularly the handling of items recently approved amounting to \$25,000,000 and \$37,000,000 under that authorization.

⁶⁰ Lt. Col. T. B. Freeman, Plans and Operations, Army General Staff.

⁶¹ For letter of August 9, see p. 135; letter of August 13 concerning priorities not found in Department files.

Noting that the Secretary's August 9th letter referred to the fact that a large part of the China requirements were not in conflict with the Greek requirements, I emphasized that the priorities indicated in that letter are still in force, except insofar as the President's policy for fulfilling urgent China needs might cut across the Greek/Turkish or high priority programs. I stated as an informal opinion that the Department would concur in a China priority above that for Greece for the \$125,000,000 project provided that there is no important conflict with the Greek/Turkish requirement for specific items, and that I would consult with FE in the morning.

Today I informed Mr. McAfee (FE) of the conversation with Col. Freeman, stating that Army Logistics had indicated that immediate priority for China requirements would not conflict in any way with Greek requirements. Mr. Berry⁶² talked with me later, having been consulted by Mr. McAfee; NEA (Mr. Jernegan⁶³) had requested information as to the effect if the China emergency assistance now in hand is given priority above the Greek/Turkish programs. Mr. Jernegan had also requested comment from Col. Mayo, P & O, on this point.

I informed Col. Freeman that the Department offices concerned (NEA, U/GT,⁶⁴ O⁶⁵) concurred in the overriding priority for China on the understanding that the effect of such priority on implementation of the Greek program will be minor. Col. Freeman stated that Logistics informs him that the effect will be "negligible"; I requested him to include that statement in the P & O record. He stated that it is shown in the Army Department memoranda for record, and that the P & O direction in that case will limit the Chinese overriding priority to transactions involving the \$125,000,000 grant.

893.50 Recovery/11-348

The Acting Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, November 19, 1948.

DEAR MR. SECRETARY: I have awaited your return to Washington before replying to your letter of November 3, 1948 regarding the distribution of military supplies to China. Unfortunately, a misunderstanding has apparently arisen regarding the views of the Department

⁶² J. Lampton Berry, Special Assistant to the Director of the Office of Near Eastern and African Affairs (Satterthwaite).

⁶³ John D. Jernegan, Chief of the Division of Greek, Turkish, and Iranian Affairs, Office of Near Eastern and African Affairs (NEA).

⁶⁴ Special Assistant for Greece and Turkey (McGhee).

⁶⁵ Assistant Secretary for Occupied Areas (Saltzman).

of State expressed in my letter of October 15 to you. It was not the intention of this Department to propose that the entire quantity of arms and ammunition purchased either under the \$125 million Aid Fund or the \$37.8 million subdivision thereof be earmarked for distribution in north China but rather to propose steps calculated to insure that a suitable proportion of this matériel be delivered to north China commanders. In this connection it will be recalled that United States representatives in China have been unanimous in the view that General Fu Tso-yi is one of the ablest Nationalist commanders but that he has been considerably handicapped in maintaining his important position by failure of the Chinese authorities at Nanking to allocate adequate military supplies to him. A desire to correct this situation is implicit in Admiral Badger's telegram 240715Z of August 24, 1948⁶⁶ and subsequent action by the Joint Chiefs of Staff, the National Military Establishment and the Department of State. Under conditions obtaining at the time my letter was written, this Department was apprehensive that the distribution of military supplies proposed by the Chinese High Command, viz., 30 per cent to Tientsin, 10 per cent to Tsingtao and 60 per cent to Shanghai, did not adequately take into account the capability for effective use and the need of north China commanders for such supplies. It recommended, therefore, that if the National Military Establishment shared this apprehension, appropriate steps be taken through General Barr to induce the Chinese High Command to allocate a more suitable proportion of the matériel to north China. It is believed that such action by General Barr would not have been inappropriate in view of the wide latitude which he enjoys under existing oral and written directives with respect to the offering of military advice on a confidential and personal basis to the President of China.

It is realized that recent major changes in the Chinese military situation may have caused the United States military authorities in China to revise their estimates of the most effective distribution of the supplies in question. In any event, it does not appear from telegram 92477 of November 12 to General Barr and from his telegram 631 of November 14⁶⁷ in reply that a divergence of opinion exists at the present time between those authorities and the Chinese Ministry of National Defense with respect to the optimum distribution of the supplies. Consequently, there appears to be no need for further action in this regard.

Sincerely yours,

ROBERT A. LOVETT

⁶⁶ *Ante*, p. 169.

⁶⁷ Neither printed.

Policy Planning Staff Files, Lot 54D195

Memorandum by the Policy Planning Staff

PPS 39/1

[WASHINGTON,] November 23, 1948.

U. S. POLICY TOWARD CHINA

The following are the views of the Policy Planning Staff on the assertion, now frequently heard both inside and outside the Government, that we have no policy with relation to the present course of events in China, and that it is urgently necessary that we devise one.

1. There is no requirement either in United States diplomatic tradition, or in the general rules which govern intercourse between states, that a government have "a policy" with respect to internal events in another country. On the contrary, it is a traditional principle of this Government, deeply sanctioned in practice and in public opinion, to refrain from interference in the internal affairs of other countries. Non-intervention in internal affairs is therefore our normal practice; and we do not consider that we are automatically obliged to take measures to influence decisively the course of internal events in other countries. There are, to be sure, instances in which such intervention has been found to be in the national interest. But these are the exceptions and not the rule. Whoever proposes or urges such intervention should properly bear the burden of proof

(a) that there is sufficiently powerful national interest to justify our departure in the given instance from a rule of international conduct which has been proven sound by centuries of experience and which we would wish others to observe with respect to ourselves, and

(b) that we have the means to conduct such intervention successfully and can afford the cost in terms of the national effort it involves.

2. In the case at hand, there is no question but that it is regrettable, and prejudicial to United States interest, that the recognized Chinese Government should be losing ground rapidly, in civil conflict, to elements largely inspired and dominated by Moscow. On the other hand, whether this process will lead to a complete domination of China by the Communists without at the same time promoting powerful "Tito" tendencies within the Communist movement, is doubtful. There is also little likelihood that the Communists, however much of China they may come to control, could develop and exploit its resources in a manner seriously dangerous to the security interests of this country. Thus, while the growing power of the Chinese Communists represents an important political development and a serious deterioration, from our standpoint, of the general situation in Asia, it is not likely to be catastrophic to United States interests.

3. Although the detriment to United States national interest involved in present developments in China, as mentioned above, would probably be sufficient to warrant intervention on the part of this country, we do not today have the means to intervene successfully in this situation. The successes of the Chinese Communists are due only in small degree to aid extended by Moscow. Of greater importance is Moscow's moral support and ideological inspiration, but even this is secondary. The main factor in the Communist advances is the inner weakness and decay of the Central Government in China. The relative change in forces which is in progress in that country is in part reflection of deep trends of internal development which themselves have nothing to do either with Russia or with the United States and which can be little altered by anything that either of those two powers may do.

4. It is plain, given the dimensions of the framework in which the civil war in China is proceeding, that in any successful attempt to repulse Communist advances the major effort must be made by the Chinese themselves, and any aid granted them by this country must be marginal to their own effort. However, the weaknesses of the Chinese Government are today so pronounced, and its resultant tendency to lean on outside aid is so overwhelming that it is quite plain that in any serious effort to turn the tide of events in that country and to eliminate the Communists from the control of Chinese territory (including Manchuria) it would be our effort which would have to be the major one and the Chinese effort which would be marginal. We must recognize that in China, as in other countries, but possibly more than anywhere else, there is a compelling tendency to regard United States aid not as a welcome addition to a continuing local effort but as a means of relieving the respective local regime of both responsibility and effort.

5. It must be emphasized that this state of affairs stems not only from national traits of long standing but also and predominantly from a pervasive and organic weakness which no sudden reform measures or personal leadership could overcome. The many and conflicting suggestions advanced for suddenly remedying the deficiencies of the Chinese Government and rendering it able to withstand Communist pressures condemn themselves. Most of them are obviously gross over-simplifications which can stem only from ignorance or naiveté. The evils which limit the military and political effectiveness of the Central Government are ones profoundly rooted in the present stage of development of Chinese society, and many of them will doubtless reappear to limit the effectiveness of any Chinese Communist regime which assumes authority in the central and southern regions of China.

6. In the light of these facts, it is unrealistic and indefensible, in the view of this staff, to assume that we could decisively affect the course of events in China without taking upon ourselves the major responsibility and the major part of the expenditure of energy and funds and goods which that would involve. As far as the Staff is aware, this Government does not have before it any official estimate, from competent quarters, of what it would involve in the way of military effort on our part to assume the major burden of containing and repulsing Communist forces in China. Such estimates as we have seen from outside quarters or from individual opinions of officials in the Government have generally been based on the theory that the Chinese Government was capable of making the major effort necessary for this purpose and only required from this country marginal assistance in shipments of arms and military advice. In the absence of any official estimates on this point, based on a realistic view of the background situation, it would have been, and would be today, frivolous and irresponsible to venture into any program of economic or military aid designed to enable the Chinese Central Government to defeat the Communist forces and reestablish its authority throughout the country.

7. Actually, and particularly in view of the fact that what would be called for from this country would be not only arms and money but a major output in terms of executive and military personnel, it would seem clear even to the casual inquirer that any attempt to assume the major burden of the government's cause in the Chinese Civil War would be plainly beyond what Congress or the people of this country could realistically be expected to sanction and support at this time.

8. In the light of the above, the Policy Planning Staff strongly doubts that there is a practical possibility of exercising any serious influence on the course of events in China through the extension of further military or economic aid to the Central Government at this time. If this view is correct, then our policy toward China must, in so far as it envisages any intervention in Chinese internal affairs, be based rather on other possible expedients, as for example use of our economic bargaining power to extract specific concessions, aid to local factions or authorities, etc.

9. Since it is also clear that the policy of this country cannot be predicated on the resistance to Communism which the Central Government may put up, it follows that our actions will have to be adjusted to the needs of specific local situations. This will mean that we cannot have "a policy" toward China as a whole, except to favor authorities which take a relatively cooperative view toward United States interests and to disfavor those which do not. Such a policy must be

translated into action on a day by day basis in accordance with the changes of the moment. It cannot be explicitly defined on paper in a form which can serve as a guide for months or years ahead. It is outstandingly a matter which calls for operational skill and flexibility.

10. In summary, there is plainly no great difference of opinion as to what we would like to see happen in China. We would wish to see the Communists defeated and replaced, in the territories they now occupy, by other Chinese authorities not inspired or directed by any foreign government, and not animated by any basic hostility to this country.

On the other hand, our means for influencing directly the course of events in China are extremely limited. It is plain, in particular, that there is little we can do to influence these events through programs of economic aid and military aid to the Central Chinese Government.

This being the case, we must reconcile ourselves to the possibility that there may be further serious deterioration of the situation and that we may be powerless to prevent it.

However, we may hope that eventually static factors of geography, history, tradition, social conditions, etc., will absorb and contain much of the Communist effort. Meanwhile, we should search diligently for opportunities to make our influence usefully felt, if only in local theatres of activity.

711.93/11-2448

*Memorandum by the Director of the Policy Planning Staff (Kennan)*⁶⁸

[WASHINGTON,] November 24, 1948.

The National Security Council Staff, having taken note of the former Policy Planning Staff paper,⁶⁹ has been trying to draft a rather elaborate statement of American objectives and policy in China.

This effort is, I believe, largely a result of the wide-spread feeling, which Secretary Forrestal appears to hold, that we "have no policy" with relation to what is now happening in China and that something should be done about it.

As the State Department Consultant for the NSC, I have declined to accept the draft produced by the NSC Staff⁷⁰ and have called for a meeting of the five Consultants to explain to them why I do not think it useful or advisable to try to produce such a policy document.

To support this position we have put down, in the form of a Staff paper,⁷¹ certain of our views on this subject which I propose to submit

⁶⁸ Addressed to the Secretary of State and the Under Secretary of State (Lovett).

⁶⁹ No. PPS 39 of September 7, p. 146.

⁷⁰ See NSC draft of November 2, p. 185.

⁷¹ No. PPS 39/1, *supra*.

to the other Consultants, in advance of the meeting, in order that they may have a chance to consider our points of argument before the discussion.

Since I am not presenting this paper as an approved Department position, I am not asking for approval on it.

However, I thought it might be of interest to you and of possible usefulness in connection with questions that may be asked by the press in the coming period.

893.50 Recovery/11-2548

The Chinese Ambassador (Koo) to the Secretary of State

No. 218

WASHINGTON, November 25, 1948.

DEAR MR. SECRETARY: I have requested your office for an appointment to call on you in order to discuss the situation in my country. Pending your designation of the time for my call, I enclose herewith a Memorandum for your perusal, which I wish to take up for discussion with you in the course of my visit.

Yours sincerely,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the Secretary of State

MEMORANDUM

URGENT SUPPLIES UNDER THE 7-ARMY-AND-3-REORGANIZED DIVISION PROGRAM AND FOR THE CHINESE AIR FORCE

1. On account of the exigency in China, the Chinese Government requests that the United States Government would take urgent steps to complete the delivery of the weapons and ammunition under the 7-Army-and-3-Reorganized Division Program. This program was worked out in Nanking between the Chinese National Defense Ministry and the United States representatives and consists essentially of the following:

124,383	rifles
8,104	automatic rifles
1,566	machine guns
8,920	sub-machine guns
720	81mm. mortars
3,260	60mm. mortars
252	37mm. guns
252	75mm. howitzers
317,864,500	rounds of cartridges
1,836,000	rounds of mortar shells
166,800	rounds of 37mm. gun and 75mm. howitzer shells.

2. Of this program about 50% have been or are being shipped from the United States to China, with the exception of a small portion dispatched from the Western Pacific.

3. The total cost of the above program was jointly computed last September in Nanking by the Chinese and United States representatives to amount to U. S. \$37,783,386.68 on the basis of the 1945 standard list prices. This sum was transferred to the United States Department of the Army toward the end of September out of the \$125 million special China aid fund for the specific purpose of covering the entire program. According to the latest computation of the Department of the Army, however, the total cost of fulfilling this program would require \$74,987,810.00, a sum nearly double the total of the original estimate made in Nanking. For this reason, the Department of the Army is understood to be unable to provide for the remainder of the program which consists of about one-third of rifle cartridges and all the trench mortars, 37mm. guns, 75mm. howitzers and their ammunition, unless additional funds are transferred to the Department.

4. It is to be noted, however, that of the \$125 million under grants a total of \$118.3 million has already been paid out to cover the release from the United States Government stocks and from other sources of a wide variety of urgently needed military supplies, including, besides the above program, such items as aviation gasoline, army and navy motor fuels, army tanks, trucks, truck tires and parts, aircraft and parts, repairs and supplies for naval vessels, signal equipment, army medical supplies, and essential raw materials for the Chinese arsenals. There is not enough money left from the special aid fund to pay for the balance of the program if the prices for the principal items are calculated on a replacement basis. It is therefore earnestly requested that the United States Government would consider and decide to fix the cost of the whole program on the basis of the 1945 standard list prices and authorize the Army Department to continue urgent action toward completing the delivery of the remaining items of the program.

5. Owing to the special role of the Chinese Air Force in the current campaign, its aircraft have been put to excessive use and its stock of aerial bombs has been greatly diminished. It is earnestly requested that the United States Government would make available to the Chinese Government at the earliest possible date the following aircraft and bombs, with the question of payment to be subsequently determined:

(a) *Aircraft:*

A-26 attack bombers	73
PB-4Y navy bombers	24

(b) *Aerial bombs* (about 5,189 tons) :

Bomb, G. P. 250-lb AN-M57	10,000
Bomb, G. P. 100-lb AN-M30	20,000
Bomb, semiarmor-piercing, 500-lb AN-M58	5,000
Fragmentation bomb cluster, 500-lb M-26	2,000
Fragmentation bomb cluster, 100-lb M1A1	5,000
Fragmentation bomb, 260-lb AN-M81	5,000
Igniters, M14 or M16	6,000

6. The Chinese Government will also greatly appreciate it if further delivery of the P-47N aircraft, in addition to 51 planes already turned over under Contract No. W-ANL (CH) 1575 (July 15, 1948) with OFLC can be expedited.

[WASHINGTON,] November 25, 1948.

Policy Planning Staff Files, Lot 54D195

*The Director of the Policy Planning Staff (Kennan) to the Secretary of State*⁷²

PPS 45

[WASHINGTON,] November 26, 1948.

U. S. POLICY TOWARD CHINA IN THE LIGHT OF THE CURRENT SITUATION

MR. SECRETARY: In response to your request for a digest of Chinese developments, there is attached a memorandum prepared by the Division of Chinese Affairs (Tab A).⁷³

The recommendations you asked for are set forth below. They are based on three major conclusions:

1. The disappearance of the Chinese National Government, as now constituted, is only a matter of time and nothing that we can realistically hope to do will save it (see the Policy Planning Staff's basic paper on China, NSC 34,⁷⁴ and its supplementary comments, PPS-39/1⁷⁵).

2. The situation in China from now on will be in a state of extreme flux, precluding realistic detailed forward planning.

3. Of major importance at present in the problem of our China policy [*our relations with China*]⁷⁶ are the confusion and bewilderment in the public mind regarding our China policy. It is now less important to cover up the inadequacies of the Chinese Government than it is to regain the understanding confidence of the American public, without which we cannot effectively implement China policy.

⁷² Pencil notation by the Secretary of State: "Read to Cabinet Nov. 26-48. GCM".

⁷³ Enclosure 1 to this document.

⁷⁴ PPS 39 of September 7, p. 146.

⁷⁵ November 23, p. 208.

⁷⁶ Revision indicated in the original.

RECOMMENDATIONS

1. We should continue to recognize the National Government as now constituted.

2. With the disappearance of the National Government as we now know it, we should make our decision regarding recognition and tactical policy in the light of circumstances at the time.

3. We should be prepared, if advisable at the time, to request from the next Congress an appropriation for aid to China, the amount and nature to be determined in the light of the situation existing at that time, with maximum degree of flexibility for the Executive in the implementation of such an aid program.

4. Given the desirability of urgently correcting the misapprehensions in the mind of the American public regarding our relations with China,

a. The President should be requested to issue a public statement along the lines of Tab B.⁷⁷

b. All of the facilities of the Executive Branch of the Government should be used to get before the public, and keep before the public, a uniform and consistent presentation of the background of U. S.-Chinese relations. The Department of State should take the lead in preparing the necessary materials.⁷⁸

GEORGE F. KENNAN

[Enclosure 1]

*Draft Statement Prepared in the Division of Chinese Affairs for the Secretary of State*⁷⁹

The basic considerations governing our policy toward China were clearly set forth by the President in his message to the Congress on February 18, 1948⁸⁰ transmitting the proposed China aid bill. The President pointed out the double and inter-related burden of civil war and a rapidly deteriorating economy under which the Chinese Government and people were laboring and the continued damage being wrought by the Communist forces and stated: ⁸¹

" . . . We can assist in retarding the current economic deterioration and thus give the Chinese Government a further opportunity to initiate the measures necessary to the establishment of more stable eco-

⁷⁷ Enclosure 2 to this document. Penciled notation by the Secretary of State: "Not decided" at Cabinet meeting, November 26.

⁷⁸ Penciled notation by the Secretary of State: "Decision of Pres. was that we must not be responsible for announcement that would, in effect, virtually destroy the influence of Chiang Kai Shek. Therefore, we must delay this action. GCM".

⁷⁹ Penciled notation by the Secretary of State: "Read to Cabinet Nov. 26-48. GCM".

⁸⁰ *United States Relations With China*, p. 981.

⁸¹ Omissions throughout the document are indicated in the original.

conomic conditions. But it is, and has been, clear that only the Chinese Government itself can undertake the vital measures necessary to provide the framework within which efforts toward peace and true economic recovery may be effective.

"In determining the character and dimensions of the program which might be suited to this purpose, we have had to take into account a number of diverse and conflicting factors, including the other demands on our national resources at this time, the availability of specific commodities, the dimensions and complexities of the problems facing the Chinese Government, and the extent to which these problems could be promptly and effectively alleviated by foreign aid. United States assistance to China, like that provided to any other nation, must be adapted to its particular requirements and capacities.

"... Nothing which this country provides by way of assistance can, even in a small measure, be a substitute for the necessary action that can be taken only by the Chinese Government. Yet this program can accomplish the important purpose of giving the Chinese Government a respite from rapid economic deterioration, during which it can move to establish more stable economic conditions. Without this respite the ability of the Chinese Government to establish such conditions at all would be doubtful."

In my statement to the House Committee on Foreign Affairs on February 20, 1948,⁸² I pointed to the Communist efforts to wreck the Chinese economy and stated:

"... It should be recognized that for the main part the solution of China's problems is largely one for the Chinese themselves... it is desirable that the United States Government render assistance to China in her present critical situation in order to help retard the present rapid rate of economic deterioration and thus provide a breathing space in which the Chinese Government could initiate important steps toward more stable economic conditions... The United States should not by its actions be put in the position of being charged with a direct responsibility for the conduct of the Chinese Government and its political, economic and military affairs."

In connection with the general question of United States policy toward China, the President at his press conference on March 11, 1948 made it clear that the United States did not want Communists in the Chinese Government.⁸³ He said that the United States had always maintained friendly relations with the recognized Government of China and that we had been trying to assist that Government to maintain peace in the Far East. He further stated that his statement of December 1945⁸⁴ advocating the broadening of the base of the Chinese Government was just as good now as when it was made but that

⁸² *United States Relations With China*, p. 983.

⁸³ See vol. VII, p. 141.

⁸⁴ *United States Relations With China*, p. 607.

he did not mean the inclusion of Chinese Communists in that Government.

The Department of State's China aid program, presented to the Congress on February 18, 1948, called for the financing of essential civilian-type imports into China in the amount of \$510 million and an additional \$60 million for certain reconstruction projects, a total of \$570 million. In its consideration of the China aid bill, the House inserted in both the enabling legislation and the appropriation act a proviso placing China in the same category as Greece and Turkey with respect to military aid. The Senate rejected such a proviso, and instead both the enabling and appropriation acts, as they came from conference and were finally passed by the Congress, called for grants of \$125 million to the Chinese Government to be used as it saw fit. The Congress thus clearly indicated its desire to avoid commitments and responsibilities in China which it considered it undesirable for the United States to assume.

The Congress first reduced the period of foreign aid from 15 to 12 months, thus reducing the total aid for China from \$570 million to \$463 million, and in the appropriation act the total amount was further reduced from \$463 million to \$400 million. This total provided \$275 million for economic and reconstruction type aid and \$125 million for military type aid.

Under terms decided upon by the President, the Treasury Department has disbursed, as of November 24, a total of \$113,079,988.84 of the \$125 million grants to the Chinese Embassy or to U. S. Government agencies as directed by the Chinese authorities. Shipments to China under these grants, as of November 19, for a period from June to November, include ammunition, aircraft and spare parts and petroleum products and total approximately \$30 million. Of the total disbursed to date, all but about \$17 million has been paid to U. S. Government departments for procurement on behalf of the Chinese Government and these departments, particularly the Department of the Army to which has been turned over \$68 million of these funds, are making every effort to expedite procurement and shipment of material.

Of the \$275 million appropriated for the ECA China program, \$213 million has been programmed for commodities (food, fuel, cotton and fertilizer) and the balance, \$60 million, for reconstruction, for which engineering studies are now in process. Under the commodity program, \$165 million has been committed of which approximately \$100 million has arrived in China. This leaves \$48 million yet to be committed by April 3, 1949 for commodities and \$113 million to be delivered.

In spite of substantial United States aid to China since V-J Day, the military and economic position of the Chinese Government has deteriorated seriously. Prompted by the critical situation, President Chiang Kai-shek addressed a message to the President on November 9, 1948,⁸⁶ containing an urgent appeal for "speedy and increased military assistance", the appointment of a high ranking U. S. military officer as military adviser and the participation of U. S. military advisers in the direction of operations. The President replied on November 12,⁸⁷ stating that everything possible was being done to expedite the procurement and shipment to China of munitions under the China Aid Act. With respect to the appointment of a high ranking U. S. military officer, the difficulties of the position of a newly appointed officer were pointed out and President Chiang's attention was drawn to the presence of General Barr, Director of the Joint United States Military Advisory Group in China, who was conversant with the current situation and whose advice had always been available. The President expressed his full sympathy with the difficulties confronting the Chinese Government and people and assured President Chiang that every effort would be made to expedite the implementation of the China aid program authorized by the Congress with his approval.

Pertinent to consideration of the course this Government may follow with respect to China are recent reports received from Ambassador Stuart and United States military representatives in China. The Ambassador has stated that the present regime has lost the confidence of the people, reflected in the refusal of the soldiers to fight and the refusal of the people to cooperate in economic reforms, and that General Barr's advice to the Generalissimo on specific problems arising from the conduct of current military operations has in general been ignored. In mid-October the Ambassador stated that it was difficult to see how any efforts on our part short of armed intervention on a very large scale could avert further military disaster. U. S. military advisers in China stated in October that there was just no will to fight left in the Nationalist forces and no effective way could be found to change the situation, the requisite leadership not being available. Recent Nationalist military reverses have resulted largely from the lack of will to fight and defections of Nationalist troops to the Communists. General Barr has reported that in no case since his arrival in China has the National Government lost a battle because of lack of arms and ammunition. Chinese Government losses, beginning with the fall of Tsinan in September and through the Manchurian debacle, total 33 divisions or 323,000 men with all their equipment,

⁸⁶ See telegram No. TELMAR 155, November 12, 8 p. m., p. 201.

⁸⁷ See telegram No. 1608, November 12, 7 p. m., p. 202.

including large quantities of material in depots. The Nationalist forces are reported to have carried out virtually no destruction of equipment prior to their surrender. Against this background of military disaster, the Ambassador reported on November 10 that the bulk of the Chinese people and virtually all officials are resigned to an early Communist victory and believe that the immediate cessation of fighting would be in the best interest of all concerned.

[Enclosure 2]

*Draft Statement for President Truman*⁸⁸

[WASHINGTON,] November 26, 1948.

This Government is well aware that the situation in China is extremely critical. The great problem is what could properly be done by the United States that would be of positive assistance in the present crisis. In my message to the Congress dated February 18, 1948, recommending consideration of a program of aid to China, I stated:

"But it is, and has been, clear that only the Chinese Government itself can undertake the vital measures necessary to provide the framework within which efforts toward peace and true economic recovery may be effective.

"In determining the character and dimensions of the program . . .⁸⁹ we have had to take into account a number of diverse and conflicting factors, including the other demands on our national resources at this time, the availability of specific commodities, the dimensions and complexities of the problems facing the Chinese Government, and the extent to which these problems could be promptly and effectively alleviated by foreign aid. United States assistance to China, like that provided to any other nation, must be adapted to its particular requirements and capacities."

Secretary Marshall, in his statement to the Committee on Foreign Affairs of the House of Representatives on February 20, 1948, stated:

". . . The United States should not by its actions be put in the position of being charged with a direct responsibility for the conduct of the Chinese Government and its political, economic and military affairs."

China, which long resisted Japanese aggression, is now faced with the threat of a more insidious form of imperialism exerted through international communism. It remains the earnest wish of this Government and of the American people to see a strong, independent and united China with which there can be maintained relations of mutual

⁸⁸ Penciled notation by the Secretary of State: "Not read to Pres. or to Cabinet. Held for further study and consideration. GCM".

⁸⁹ Omissions throughout the document are indicated in the original.

benefit and respect traditionally existing between the two countries. The Congress has provided funds for substantial economic and military aid to China until April 3, 1949. We are expediting the delivery of that aid.

But it is the Chinese Government itself which must take the responsibility for decisions to be made during this critical time, and which must arouse the Chinese people to a determined effort in their own behalf. Information reaching this Government does not indicate that the present course of events in China could have been averted or could now be substantially affected by any measure of aid which the United States could feasibly make available.⁹⁰

We shall continue to watch for opportunities to use our influence and resources usefully and wisely to support Chinese independence. But we must examine carefully, at every turn, how far we may go without prejudice to our own security and to our own economic stability, which is of vast importance to the entire world.

893.00/11-2648

Memorandum by the Secretary of State to the Under Secretary of State (Lovett)

[WASHINGTON,] November 26, 1948.

At the Cabinet meeting this morning I outlined the situation in China, the actions of this Government from the time of the President's Message on February 28 [18]⁹¹ down to the present time, the losses which had been sustained by the Government troops and which apparently have become available to the Communist armies, the problems specifically involved and certain recommendations.

Whether or not the President should make a statement was not decided.

The President decided that while it is extremely important that the people of the United States should be brought to understand the facts of the case in regard to China—our policy, the successive steps we have taken, the complete failures of the Chinese economically and militarily, etc.—to do this at this time would place us in the position of having administered the final blow to the Government of the Generalissimo; that we should not make such a statement at this time but that we should be prepared to do so at the appropriate moment.

The case of Madame Chiang Kai-shek's visit to the United States⁹² was outlined to him and he authorized the use of the naval plane to bring her and her party to this country.

G. C. MARSHALL

⁹⁰ Pencil parentheses have been placed about this sentence in the original.

⁹¹ Department of State *Bulletin*, February 29, 1948, p. 268.

⁹² For correspondence on this subject, see pp. 307 ff.

893.00/11-2948

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] November 29, 1948.

Participants: Sir Oliver S. Franks, British Ambassador
Mr. F. R. Hoyer Millar, British Minister
The Under Secretary
Mr. Palmer-AF⁹³
Mr. Sprouse-CA

The British Ambassador called by appointment today and asked if there were any new developments with respect to China.

I informed him that there had been nothing beyond what I had previously told him, that we continued to support the National Government and that we were continuing to implement our aid program authorized by the last Congress for a period ending April 3, 1949. I pointed out that in the fighting during the past two months in China the National Government had suffered serious losses in manpower and matériel, the amount of such losses in some items being considerably greater than the total of these items being acquired by the Chinese Government under the present program of aid for China. I described the pattern of defections of Chinese Government troops to the Communists and pointed out that the will to fight had been lacking on the part of the National Government forces.

In this general connection Mr. Sprouse pointed out that the defection of many of the National Government troops had made untenable the position of the remaining forces which might have desired to resist the Communists. He added that the recent battles in the Hsueh-Nanking area had, however, been somewhat different and that the National Government troops had actually shown a will to fight.

I made a brief reference to the impending visit of Madame Chiang, stating that she was likely to seek to obtain commitments for large-scale aid from the United States. I pointed out that it was difficult for the American Government to make any public statement of its policy at this time since to make a full and accurate statement of the situation would be harmful to the position of the Generalissimo and his Government and to make a misleading statement would obviously be unfair to the American people. The United States Government was therefore saying nothing.

The Ambassador expressed his appreciation of this indication of the United States position in China and said that he would have

⁹³ Joseph Palmer, 2d, Acting Chief of the Division of African Affairs.

Mr. Graves⁹⁴ keep in touch with the appropriate officers of the Department in connection with developments in China.

893.248/11-2948

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 29 November 1948.

DEAR MR. SECRETARY: Reference is made to the memorandum of 25 November 1948 from the Chinese Ambassador, entitled "Urgent Supplies Under the 7-Army-3-Reorganized Division Program and for the Chinese Air Force".

Although the National Military Establishment accepted the entire request from the Chinese representatives in Washington, for the "7-Army-and-3-Reorganized Division Program", no commitment was made by the National Military Establishment about the quantity to be supplied or the prices to be charged. While the Department of the Army subsequently accepted the \$37,783,386.68, transferred for application to the program, it was the Department of the Army's position that the prices to be charged would be in accord with the standard pricing formula, applicable to all foreign aid programs; and that the supplies would be furnished only within the limits of the \$37,783,386.68, using such formula as the basis for computation.

The pricing formula, upon which the cost of this program is computed, is stated basically:

(a) Items requiring replacement in Department of Army stocks to meet *minimum* known requirements will be charged at *current procurement prices*.

(b) Items requiring replacement in Department of Army stocks to meet *maximum* known or anticipated requirements, over and above minimum requirements will be charged at *1945 or original procurement prices*.

(c) Items over and above the maximum known or anticipated requirements, i.e. *surplus items*, will be charged at *10% of original procurement prices*.

Based upon the above formula, the cost of the Chinese "7-Army-and-3-Reorganized Division Program" will amount to an estimated \$74,987,810. This figure includes costs for packing, handling and inland transportation, but not ocean transportation which presumably will be furnished free of charge by the U. S. Navy. Under these conditions approximately 50% of this program can be fulfilled with the \$37,783,386.68.

Although the computations based upon 1945 prices, as submitted by the Chinese, are substantially correct, it should be noted that these

⁹⁴ H. A. Graves, Counselor of the British Embassy.

figures do not include a provision for costs of packing, handling and inland transportation. Thus, again assuming free ocean transportation, a decision to charge 1945 prices for all items would permit fulfillment of no more than 90% of the Chinese request at the price of \$37,783,386.68 unless these funds are supplemented to defray the administrative and transportation costs incident to the delivery of the supplies to the U. S. port of shipment.

Further, while a legal basis may exist to permit the President to direct the transfer of the supplies requested by the Chinese at 1945 or even lower prices, the deficiency created thereby within the Department of the Army could be corrected only by the Congress through supplemental appropriations. The attached compilation of costs of the Chinese request⁹⁵ would result in a definite "out of pocket" expenditure by the Department of the Army of \$62,500,000 if the entire request were fulfilled.

Under existing statutes and directives the Department of the Army has no authority to effect the expenditure of funds in excess of the \$37,783,386.68 toward the completion of the "7-Army-and-3-Reorganized Division Program".

Concerning the urgently needed supplies for the Chinese Air Force, it is likely that the seventy-three (73) B-26 attack bombers and the twenty-four (24) PB-4Y Navy bombers cannot be purchased within the \$125,000,000 Program (P. L. 472). Therefore, should these aircraft be furnished to the Chinese, it is thought probable that the provisions of Public Law 472, 80th Congress, will not be applicable. Although no question is raised concerning the legal basis for effecting the transfer of these items, it is apparent that funding arrangements must be completed before the request is fulfilled.

B-26 aircraft have been retained in Air Force storage for War Reserve purposes, hence are not excess to U. S. Air Force requirements. However, seventy-three (73) of these aircraft can be made available to the Chinese on an "as is, where is" basis. Air Force maintenance facilities already are over-taxed with high priority projects which preclude their use for preparation and reconditioning of the aircraft for the Chinese Government. The supporting spare parts for these aircraft can be made available but likewise are not excess to U. S. Air Force requirements.

The twenty-four (24) PB-4Y Navy bombers similarly are not excess to U. S. Navy requirements and, therefore, could be supplied only from reserve stocks. U. S. Navy facilities are available for preparation and rehabilitation of these aircraft. It is estimated that these bombers can be made acceptable to U. S. Navy Fleet Standards in

⁹⁵ Not printed.

three months at a cost of \$20,000 per plane. However, they could be made "flyable" with the expenditure of 300-400 man hours per plane at an estimated cost of \$600 per plane.

The aerial bombs, to which reference is made in the memorandum of 25 November 1948, were requested by the Chinese Air Force on 24 November 1948, for purchase from funds already available to the U. S. Air Force in connection with the \$125,000,000 Aid Program (P. L. 472, 80th Congress). The U. S. Air Force has taken action to furnish the total number of bombs requested. The bulk of the requirement is now available within the Far East Air Force. Delivery of the aerial bombs is being expedited.

Similarly, the request for P-47 N aircraft is taken care of in the \$125,000,000 Aid Program already underway. These aircraft are being prepared and reconditioned by a commercial contractor. The U. S. Navy can deliver the P-47 N aircraft to China via carrier when they are ready for shipment. January 1949 is the earliest date on which delivery can be expected.

In addition, eighty-five (85) P-47 N aircraft were originally allocated from Far East Command for sale through OFLC to the Chinese Air Force. Of these, fifty-two (52) were contracted but only 51 were delivered, leaving approximately 34 available for future contract.⁹⁶ However, it is possible that some of these aircraft may not be capable of rehabilitation. In view of these circumstances, expeditious action may be taken by the Chinese Air Force through OFLC in the Pacific to contract for the remaining aircraft which may be capable of rehabilitation and delivery.

In summation it appears that in order to furnish the total Chinese requirement reflected in the memorandum of 25 November 1948, there will be required additional funds to reimburse the National Military Establishment as well as an additional authorization to permit the transfer of supplies beyond the limit of the \$125,000,000 program.

Sincerely yours,

FORRESTAL

Executive Secretariat Files : NSC 34

*Memorandum by the Director of the Policy Planning Staff (Kennan)
to the Secretary of State*

[WASHINGTON,] November 30, 1948.

For many months now there has existed a sharp divergence of views between this Department and the National Military Establish-

⁹⁶ In a memorandum of December 1, the Chief of the Division of Chinese Affairs summarized Secretary Forrestal's letter and added: "Since Secretary Forrestal's letter was dispatched, Air Force officers have called the Division of Chinese Affairs and requested that the reference to the 34 planes be deleted. They stated that 16 more P-47's will be transferred before the end of this year and that, depending on replacement conditions in the Pacific, further transfers may be effected after June 30, 1949." (893.50 Recovery/11-2548)

ment regarding the formulation of a statement on U. S. policy toward China.

S/P first brought this situation to your attention on July 27 (Tab A).⁹⁷ On September 7, 1948, the Department transmitted to the NSC a statement of U. S. Policy toward China, PPS-39, which had been worked out with the greatest care and detail by S/P in collaboration with FE and the Department's research office. This paper was circulated to the NSC members as NSC-34⁹⁸ (Tab B).

Although no specific criticism of NSC-34 has been received from the Military Establishment, the NSC Staff, at the instance of the Military Establishment, was directed to prepare a supplementary statement for the members. It is evident as a result of drafting attempts at the Staff level and discussion yesterday among the consultants that the Military Establishment seeks to define our policy toward China in greater detail than we feel is feasible or sound.

The basic difference in approach between the Military Establishment and us, it seems to me, is that they want not only a strategic but also a tactical directive while we feel that at this stage the NSC should concern itself only with an overall strategic statement of policy, leaving tactical planning and implementation to the operational elements in the Government—particularly our Office of Far Eastern Affairs.

It is basic in our thinking, and has never been challenged by the Military Establishment, that we cannot foresee in detail the shape of things to come in China. If we do not know now what the tactical moves of our adversary will be in the future nor precisely who will be our allies, it seems to us not only idle but self-deceptive to hamstring our future operational freedom with tactical directives laid down at this time.

If you concur in the foregoing, it is recommended that you attempt at the next NSC member meeting to:

- (1) clarify the thinking of your colleagues on this matter and
- (2) ask them to accept the statement of U.S. policy as set forth in NSC-34 and later rephrased in a greatly condensed form in our memorandum of November 26 to you, PPS-45 (Tab C).⁹⁹

GEORGE F. KENNAN

⁹⁷ Memorandum by the Deputy Director of the Policy Planning Staff (Butler), p. 122.

⁹⁸ *Ante*, p. 146.

⁹⁹ *Ante*, p. 214.

893.24/12-248

*Memorandum Prepared in the Department of State*LOSSES OF AMERICAN EQUIPMENT BY CHINESE NATIONALIST FORCES AS
OF DECEMBER 2, 1948*

Pistols	3,200
Rifles	113,170
Machine Guns	1,250
Submachine Guns (45 Cal.)	30,000
Mortars (60 MM)	2,754
Mortars (81 MM)	612
Mortars (4.2 in.)	75
Howitzers (75 MM)	204
Howitzers (105 MM)	72
Howitzers (155 MM)	36
Motor Vehicles	2,000
Ammunition (rounds)	
30 Cal.	20,000,000
45 Cal.	15,000,000
30 Cal. (Carbine)	750,000
Mortar (60 MM)	200,000
Mortar (81 MM)	260,000
Mortar (4.2 in.)	60,000
Howitzer (75 MM)	60,000
Howitzer (105 MM)	40,000
Howitzer (155 MM)	8,000

893.24/11-1948

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] December 6, 1948.

There is attached a tabulation (Tab A)¹ based on a telegram, dated December 2, (Tab B)² from the American Military Attaché at Nanking, comprising an estimate of the over-all losses of American equipment by the Chinese Government forces from V-J Day through December 2, 1948.

In terms of American trained units a conservative estimate of losses based on tables of organization and equipment is as follows:

*Includes figures on U. S. equipment in tabulation attached to Memorandum dated November 19, 1948. (Tab C). [Footnote in the original; memorandum of November 19 not printed.]

¹ *Supra.*

² Not printed.

- a. 17 originally U. S. equipped divisions totally lost
- b. Units remaining:

- 12 Divisions (85 percent U. S. Equipped)
- 2 Divisions (50 percent U. S. Equipped)
- 2 Divisions (15 percent U. S. Equipped)
- 2 Divisions (10 percent U. S. Equipped)

General Soule points out that the estimate of losses is most conservative as there are observed instances in which regiments of U. S. equipped divisions have been wiped out and later reconstituted with American equipment. He considers an estimate of 80 percent losses of U. S. equipment by capture and attrition (given by a high ranking Nationalist officer of the supply services following the fall of Manchuria) to be a sound basis on which to determine total losses of U. S. equipment. It is General Soule's estimate, furthermore, that at least 75 percent of the equipment supplied has fallen into the hands of the Chinese Communist Forces. The Communists claim that 70 percent of the U. S. equipped Nationalist forces were lost by November 2, 1948.

W. W[ALTON] B[UTTERWORTH]

894A.00/12-848 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, December 8, 1948—midnight.

[Received December 9—3:40 a. m.]

93. Several separate sources indicate that Communists will attempt seize Chinese ships and at least cadres here.

Documents seized here indicate extensive infiltration into Chinese Navy plus striking piracy methods here.

Government frankly worried this situation as there is not even customs patrol and impossible to police myriad coves.

Seems me constant US Naval surveillance Taiwan waters minimum precaution plus means communication Consulate General. I am setting up long range voice radio now.

Sent Department repeated Nanking 183.

KRENTZ

893.50 Recovery/12-1048 : Telegram

The Acting Secretary of State to the Consul General at Taipei (Krentz)

WASHINGTON, December 10, 1948—1 p. m.

68. For your info[rmation] Chi[nese] Ministry Nat[ional] Defense has requested ships carrying munitions purchased from China

Aid Act \$125 million grants unload at Keelung consignment that portion previously destined Shanghai and Chi Combined Service Forces has been instructed have personnel in Taiwan receive such supplies. First ship affected by this arrangement carrying ammo, 60 percent of which to be unloaded Keelung, expected arrive shortly.

LOVETT

893.24/12-1348 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, December 13, 1948—4 p. m.

[Received December 13—5 a. m.]

94. For Butterworth. Information Deptel 68 regarding munitions already known locally causing speculation.

KRENTZ

893.50 Recovery/11-2548

The Acting Secretary of State to the Chinese Ambassador (Koo)

The [Acting] Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Chinese Embassy's memorandum of November 25, 1948, requesting that the United States Government take certain steps to provide military assistance to the Chinese Government.

The National Military Establishment informs the Department that in accepting the Chinese Government's request for equipment and ammunition for the seven armies and three reorganized divisions no commitment was made with respect to price. The military representatives of the Chinese Government in Washington charged with handling procurement under the \$125 million grants were so informed by the Department of the Army in a letter dated September 30, 1948, prior to the transfer of funds. The National Military Establishment further notes that the Department of the Army in accepting the transfer of \$37,783,386.68 from the \$125 million grants took the position that prices charged would be in accord with standard pricing formulas applicable to all foreign aid programs.

The bulk of the equipment desired by the Chinese Government comprises items which will have to be replaced if the minimum stock requirements of the Army are to be maintained. For most of these transfers, therefore, standard pricing formulas necessitated the charging of current replacement costs. Whenever items did not fall in the above category, 1945 prices or surplus prices were established depend-

ing on the replacement requirements of the Army. Based on the above formulas, the cost of the program was computed to be \$74,987,810. The National Military Establishment indicates that the Department of the Army has no authority to effect the expenditure of funds in excess of those allocated by the Chinese Government from the \$125 million grants for this purpose.

The 80th Congress in its second session appropriated the funds on which this Government's program of aid to China is based. Of the funds appropriated, \$275 million were allocated for economic aid and \$125 million were grants to be expended as desired by the Chinese Government. The only source, therefore, from which United States Government funds could be drawn to pay for the military equipment desired would be the \$125 million grants.

The President in his letter of July 28, 1948, to the Secretary of Defense³ establishing procedures under the \$125 million grants authorized him to "take such action as may be appropriate . . .⁴ to facilitate the acquisition by the Chinese Government of such military supplies as the Chinese Government may request either by making available existing stocks of the National Military Establishment or by arranging for the procurement of such supplies on behalf of that Government". It was this authorization which permitted the Department of the Army to transfer from its own stocks the equipment already purchased by the Chinese Government for the seven armies and three divisions.

With respect to the equipment for the Chinese Air Force, the National Military Establishment has informed this Department that the planes requested, though not excess to United States Air Force or Navy needs, could be made available. Surplus prices will not apply either to the planes or any spare parts for them. The National Military Establishment notes that the United States Air Force maintenance facilities are overburdened with projects which preclude their use for the reconditioning of the B-26's, but that the Navy is in a position to rehabilitate the PB4Y's. These latter planes can be made acceptable to United States Navy fleet standards in three months at a reconditioning cost of \$20,000 per plane, or can be rendered flyable at a reconditioning cost of an estimated \$600 per plane. These figures do not include the basic cost of the planes.

With respect to the aerial bombs, the National Military Establishment informs this Department that the United States Air Force has taken steps to furnish the total number requested, the bulk of the requirement now being available in the United States Far East Command. Delivery of this material is being expedited.

³ *United States Relations With China*, p. 950.

⁴ Omission indicated in the original.

With respect to the transfer of P-47N aircraft, fifty-one of which have been delivered, this Department has been informed that sixteen additional planes will be transferred prior to the end of this year.

The National Military Establishment informs this Department that the United States Navy is investigating as a matter of urgency the possibility of providing carriers to assist in the delivery of the fighter aircraft being reconditioned in this country under a commercial contract.

ROBERT A. LOVETT

WASHINGTON, December 14, 1948.

811.3393/12-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1948—11 a. m.

[Received December 15—9:45 a. m.]

2517. Purpose surveillance your [*Taipei's*] 183⁵ unclear. Please elucidate further. We do not believe it advisable that US Navy should become involved in policing Taiwan coast.

Sent Taipei 96, repeated Department.

STUART

893.00/9-1548

Memorandum of Conversation, by the Acting Secretary of State (Lovett)

[WASHINGTON,] December 15, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
The Acting Secretary—Mr. Lovett
W. W. Butterworth, Director for Far Eastern Affairs

The Chinese Ambassador called at his request. He avowedly wished to ascertain whether any final decision had been reached regarding the Chinese Government's previous requests for a statement of policy and sympathy on the part of the U. S. Government and in the matter of sending a high military personage to China. I went over the ground with him referring to the communications which had taken place between the President and the Generalissimo, the action taken under instructions by our Ambassador in Nanking, the statement which the President made in a recent press conference,⁵ *et al.* This

⁵ Sent to the Department as telegram No. 93, December 8, midnight, p. 227.

⁶ Apparently press conference of December 2. When asked if he intended to make a statement of policy on China, the President replied that he had on three different occasions made statements on Chinese policy and that he had nothing further to say on it.

was well-trying ground and it was obvious that the Ambassador was not unfamiliar with it, so much so that it seems not unlikely that the real purpose of his inquiries was to ascertain what Mme. Chiang Kai-shek had been able to accomplish since he neither had accompanied her on her visits to the hospital to see the Secretary nor had he been present when she was received by the President and Mrs. Truman.

The Ambassador also referred to Mr. Bevin's speech ⁷ and particularly to that part of it in which Mr. Bevin had made reference to the Moscow Declaration ⁸ in the matter of non-intervention in the internal affairs of China. From this and other questions which he asked relating to my press conference and to a report which he said he had seen in the public press to the effect that the USSR had protested to this Government against its shipments of arms to China, it was apparent that he sought to be reassured that the U. S., Great Britain and Russia were not in communication with a view to seeking a disposition satisfactory to themselves of the current situation in China. I reassured the Ambassador on this point and he immediately left thereafter seemingly satisfied.

893.24/12-1548

Note by Rear Admiral Sidney W. Souers, Executive Secretary of the National Security Council

NSC 22/2

[WASHINGTON,] December 15, 1948.

CURRENT POSITION OF THE UNITED STATES RESPECTING DELIVERY OF
AID TO CHINA

The enclosed memorandum by the Secretary of Defense on the subject is submitted herewith for discussion by the National Security Council, and at the request of the Secretary of Defense is scheduled as Item 3 on the Agenda for the 30th Council Meeting on Thursday, December 16, 1948.

At the direction of the President, the Economic Cooperation Administrator is being invited to attend the 30th Council Meeting for discussion of the entire Chinese Aid Program, including both economic and military assistance.

SIDNEY W. SOUERS

⁷ Speech by Ernest Bevin, British Secretary of State for Foreign Affairs, December 9 in the House of Commons, *Parliamentary Debates*, 5th Series, vol. 459, p. 566.

⁸ December 27, 1945. For text, see *Foreign Relations*, 1945, vol. II, p. 815; or Department of State *Bulletin*, December 30, 1945, p. 1030.

[Enclosure]

The Secretary of Defense (Forrestal) to Rear Admiral Sidney W. Souers, Executive Secretary of the National Security Council

WASHINGTON, 14 December 1948.

Subject: Current Position of the United States Respecting Delivery of Aid to China

1. The National Military Establishment is currently providing facilities, services and transportation to the Nationalist Government of China, in connection with its purchase of military supplies under the China Aid Act. This assistance is being expedited in compliance with a letter to me from the President dated 20 October, 1948, a copy of which is attached for your information.

2. In view of the present situation in China which has greatly deteriorated since the President's October letter was written, I desire to raise the subject of the Chinese Aid Program of the United States at the next meeting of the Council for the purpose of reviewing the situation and obtaining guidance as to whether the Military Establishment should continue to provide this assistance and, if so, at what priority and under what conditions.

3. You may desire to invite a representative of the Economic Cooperation Administration to attend the meeting for consideration of this item since further military assistance is closely related to continuing economic assistance.

JAMES FORRESTAL

[Subenclosure]

President Truman to the Secretary of Defense (Forrestal)

[WASHINGTON,] 20 October 1948.

MY DEAR MR. SECRETARY: The Congress has appropriated \$125,000,000 for military aid to China. It is my understanding that this program is proceeding in good order except in the case of the assembly and shipment of small arms and ammunition. I am advised that the first shipment of this badly needed material is scheduled for early December and the final shipment in January, 1949. These small arms and ammunition are needed in China as soon as possible. I, therefore, direct that the shipments be expedited.

Very sincerely yours,

HARRY S. TRUMAN

Executive Secretariat Files : NSC 22

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State*

[WASHINGTON,] December 16, 1948.

Subject: NSC 22/2⁹

It is not believed that any change in the present measures of implementation or priority should be made in the program of aid under the \$125 million grants unless (1) the Chinese Government should collapse or withdraw from Nanking, (2) the Generalissimo should resign from the Government, (3) the Chinese Communists should occupy the ports at which the matériel is to be delivered or (4) the continued implementation of this program would be contrary to United States interests.

In considering (4) above it should be noted that the Chinese Government has requested that 60 per cent of the shipments now being made be delivered at Taiwan. Since the bulk of these shipments may not be available during the struggle for the capital for the Government's use, the advisability of making all this matériel available to the National Government should be reviewed. In the event of a sudden collapse of the Chinese Government, the matériel might fall into the hands of a Communist or Communist-dominated government, merely strengthening the Chinese Communists militarily or providing an additional reservoir of arms which could be circulated elsewhere in the Far East. Attached as Annex 1 is a tabulation of the shipments of arms being effected by the Department of the Army under the \$37.8 million transfer from the \$125 million grants. The Navy and Air Force are likewise providing matériel and services to the Chinese Government.

It is recommended that the following action be taken with respect to the matériel and services being provided by the National Military Establishment:

(1) the National Military Establishment be requested to obtain from the Director of JUSMAG, China, his comments on the advisability from a military point of view of continuing the delivery of matériel now en route or being prepared for shipment;

(2) the Department of State obtain the comments of the Embassy, Nanking, on the advisability from a political point of view of continuing the delivery of matériel, with particular reference to the deliveries at Taiwan;

(3) in arriving at a final decision with respect to this matter, the National Security Council give consideration to the potential usefulness in other programs of military aid to which this Government is committed of the arms and matériel now being prepared for shipment to China or presently en route in US Navy vessels.

⁹ *Supra.*

[Annex]

SHIPMENTS TO CHINA OF ARMS AND AMMUNITION UNDER \$37.8 MILLION
TRANSFER FROM \$125 MILLION GRANTS

<i>Ship</i>	<i>Sailing Date</i>	<i>Cargo</i>	<i>Arrival Date</i>
2 LSTs	Nov. 4 & 7 Japan & Guam	LT 1300 (approx.) small arms	Tsingtao Dec. 7-14
USS Algol	Nov. 9 West Coast	LT 4974 or MT 3742 Ammunition	Shanghai Tsingtao Dec. 7
USS Washburn	Dec. 1	LT 3712 Ammo— small arms (120,000 rifles)	Due to arrive Taiwan about Dec. 21
SS Virginia	Nov. 8 Hawaii	MT 1360 Explosives	Due to arrive Taiwan about Dec. 10
USS Yancey	Will sail Dec. 16 West Coast	LT 2808 or MT 7500 Rifles, Blankets, Medical Supplies.	Due to arrive Taiwan about Dec. 30

[At its meeting on December 16, the National Security Council noted and discussed NSC 22/2 and the comments thereon by the Joint Chiefs of Staff and agreed that (1) the Department of the Army should obtain the views of the Director, Joint U. S. Military Advisory Group, as to the advisability, from the military point of view, of continuing to expedite military aid to China; (2) the Department of State should obtain from the U. S. Embassy at Nanking the political viewpoint on this question, particularly as to the desirability of sending military equipment to Taiwan; and (3) the National Security Council should consider, in the light of the replies to (1) and (2) above and of the comments of the Joint Chiefs of Staff, whether the military equipment in preparation for shipment to China could be more usefully employed in other theaters or whether it might be more useful to have such equipment in Taiwan provided the Chinese National Government is not established there.]

893.50 Recovery/12-1648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 16, 1948—8 p. m.

1845. NSC meeting Dec 16 approved decision, in view extent to which milit situation has deteriorated and fact current delivery of supplies not playing a part in determination decisive battles now in process, to request Natl Milit Establishment obtain comments Director JUSMAG re advisability from milit point view continuing delivery munitions under China Aid Act now en route or being prepared for shipment and have State Dept obtain Emb comments from polit viewpoint re advisability continuing delivery such matériel particularly with respect deliveries Taiwan.

Gen Barr's 861 OAGA Dec 16¹⁰ just received which furnishes partial reply. Please report your views urgently.

LOVETT

893.50 Recovery/12-1848 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*¹¹

NANKING, December 18, 1948—2 p. m.

[Received December 18—12: 53 p. m.]

2575. Problem of continuing delivery munitions under China Aid Act, it seems to us, is inextricably involved in future policy toward China (your 1845, December 16). To stop shipments at this time would inevitably be taken as confirmation of already growing belief that we are through with Chiang Kai-shek and favor coalition. It would certainly discourage those forces both within and without Government desiring continue resistance to Communism. Those forces are without leadership and may prove ineffective. Hu Shih has been brought here by Generalissimo especially to seek some means of making effective continued resistance and Hu is feverishly seeking means to that end. Cessation munition shipments would make inevitable failure any prospects he has.

Should our policy continue to involve support these elements resisting Communism, delivery such material should, we believe, be diverted to south China ports, preferably Canton rather than Taiwan. Our present belief is that when Generalissimo is forced flee Nanking his next headquarters will be Nanchang from whence he will hope to rally resistance into what may develop into guerrilla warfare. If he is driven from Nanchang, he will seek to establish his next head-

¹⁰ Not found in Department files.¹¹ Copy sent to the Executive Secretary of the National Security Council on December 24.

quarters in Canton. Taiwan would only come at much later date. To deliver military supplies to Taiwan at this stage would only, we believe, serve to increase obvious concern Taiwanese at incursion mainland refugees including Government organizations to that island.

STUART

893.24/12-1848

Summary of General Barr's Telegram No. 871 OAGA of December 18

After appraising the military position and capabilities of the principal Nationalist armies and weighing the basis in south China for continued resistance by the National Government, General Barr concludes: "Only a policy of unlimited aid, including the immediate employment of United States Armed Forces, which I emphatically do not recommend, would enable the Nationalist Government to maintain a foothold in Southern China against a determined Communist advance."

Turning to the political situation, General Barr states that the Generalissimo will continue to resist efforts to have him resign because he is convinced that only he can command a sufficient following to continue to resist the Communists. In this he is correct. Should his constitutional successor, Li Tsung-jen, come into power, he would immediately negotiate peace. Any negotiated peace will result in a Communist government notwithstanding the term "coalition" in connection with it.

General Barr reaches the following conclusions: (1) The Nationalist armies will be defeated in the immediate future and the Government forced to leave Nanking or be overthrown. (2) If the Generalissimo remains in power, the Government will move to South China and then to Taiwan. Its influence will be negligible, and it will be a government in name only regardless of military and economic aid. (3) A Communist government will be established, which will attempt to extend its control over all of China. (4) Further military and economic aid will have little effect now or in the future but should not be withdrawn abruptly as long as the National Government continues in existence.

General Barr concludes his telegram with the following recommendations: (1) Military and economic aid to Taiwan and South China should be continued as long as "any significant portions of these areas" continue in Nationalist hands. (2) Military and economic aid now en

route should be sent to Okinawa or some other suitable checkpoint for onward transportation in the light of existing circumstances, and shipments now loading should be dispatched only after a detailed appraisal of the situation. No military or economic aid should be permitted to enter areas occupied or immediately threatened by Communists. The kinds and amounts of aid to other areas should be in direct proportion to the needs of the areas. Every effort should be made to prevent any considerable stockpile of ECA or military aid where they are likely to fall into the hands of the Communists.

893.50 Recovery/12-2448

*Memorandum of Telephone Conversation, by the Chief of the
Division of Chinese Affairs (Sprouse)*

[WASHINGTON,] December 24, 1948.

Dr. Tan telephoned me today to state that the Chinese Embassy had learned that the USS *Washburn*, transporting 3,260 tons of military material purchased by the Chinese from the Department of the Army under the \$37.8 million program, arrived at Okinawa two days ago. He stated that it was the Chinese Government's intention that all such shipments would now be delivered at Keelung, the port in north Taiwan. Dr. Tan further stated that upon inquiry of the Department of the Army concerning this matter the Chinese Embassy had been informed that "whether the ship would proceed from Okinawa to Taiwan depends upon the State Department". In answer to my inquiry, Dr. Tan said that he was not certain of the name of the officer in the Department of the Army who had made this statement.

I informed Dr. Tan that I would look into the matter and communicate with him later.

(Colonel Conner, Plans and Operations, Department of the Army, telephoned me this morning and stated that the Chinese Procurement Group in Washington had approached the Department of the Army on this matter and asked what reply might be given to the Chinese. I suggested that in view of the fact that the diversion of the USS *Washburn* had been a decision by the NSC with the President's approval he simply tell the Chinese that it was presumed that the USS *Washburn* was en route but that he would look into the matter. Colonel Conner said he was directing this inquiry to the Department of State on instruction from General Wedemeyer.)

893.50 Recovery/12-2448

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] December 27, 1948.

Dr. Wang ^{11a} called this afternoon by appointment to make further inquiry regarding the delivery to China of military matériel being shipped on the USS *Washburn*, U. S. naval transport. Dr. Wang said that he was following up the inquiry made of me by Minister Tan on December 24 and asked if I had yet been able to obtain any information in this regard.

I told Dr. Wang that due to the holidays I had been unable to make exhaustive inquiries on this subject but that so far as I could learn, if there were any delay, it was due to technical reasons. When Dr. Wang pressed his inquiry and stated that he wanted to be sure there were no policy angles in this connection, I repeated that so far as I could discover there were no policy angles involved. In reply to my close questioning on this point, Dr. Wang said that the Department of the Army had indicated to the Chinese procurement group that there was a policy angle involved in the delivery of the military supplies on the USS *Washburn*. He also revealed that it was through the Department of the Army that the Chinese Embassy had learned that the USS *Washburn* was at Okinawa. He seemed reassured by my statement that I would communicate with him immediately upon obtaining any information in this regard from the Department of the Navy or the Department of the Army.

893.50 Recovery/12-2948 : Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, December 29, 1948—10 a. m.

[Received December 29—1 : 21 a. m.]

101. ReDeptel 68, Diversion of munition ships to Taiwan. I have received request from Chinese SOS ¹² through local Foreign Office to advise it of arrival US aid vessels, material aboard, etc., so that advance preparations can be made.

I consider unwise present time Consul General take official cognizance such shipments and propose ignore request or if pressed state not in position obtain advance information.

Repeated Nanking 189.

KRENTZ

^{11a} Wang Shou-chin, Chinese Counselor of Embassy.

¹² Service of Supply.

III. ESTABLISHMENT OF A JOINT UNITED STATES MILITARY ADVISORY GROUP TO THE REPUBLIC OF CHINA (JUSMAGCHINA)

893.20 Mission/1-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 12, 1948—4 p. m.

[Received January 12—1 : 25 p. m.]

79. For Butterworth¹³ from Clark.¹⁴ Have gathered from recent telegraphic exchanges that Barr¹⁵ may be given greater latitude than his predecessor.¹⁶ If this is so, authority of chief NAG¹⁷ might also profitably be expanded to permit advice on training and operation craft other than those delivered China by US. Admiral Murray¹⁸ believes NAG could be of considerable practical assistance if authority thus expanded. [Clark.]

STUART

893.30 Missions/1-2048

*Memorandum by the Assistant Chief of Naval Operations (Wool-
dridge) to the Deputy Director of the Office of Far Eastern Affairs
(Penfield)*

[WASHINGTON,] 20 January 1948.

Subject: Naval Advisory Group Survey Board, China

1. Apropos of your conversation with Captain Hummer¹⁹ on 15 January, the following information is submitted.

2. On 24 November 1945, the Chief of Naval Operations directed Commander-in-Chief, Pacific Fleet to institute, under Commander, 7th Fleet, training of Chinese personnel on diesel driven amphibious ships and crafts, for the purpose of providing crews, including maintenance personnel, for ships employed for overall purpose of effecting the surrender terms against Japan. On 11 December 1945, Commander, 7th Fleet reported the establishment of the Chinese Amphibious Training Group at Tsingtao.

3. On 23 November 1945, the Chief of Naval Operations established the Naval Advisory Group Survey Board (NAGSB) to make a survey of the needs of the Chinese Navy and the requirements of a naval advisory group. This group was directed to report to Commander, 7th Fleet. In the spring of 1946, the NAGSB took over functions

¹³ W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

¹⁴ Lewis Clark, Minister-Counselor of Embassy in China.

¹⁵ Maj. Gen. David G. Barr, Chief of the Army Advisory Group in China.

¹⁶ Maj. Gen. John P. Lucas.

¹⁷ Naval Advisory Group, technically Naval Advisory Group Survey Board.

¹⁸ Rear Adm. S. S. Murray, Senior Member Naval Advisory Group Survey Board.

¹⁹ Assistant Chief of Naval Operations for Political-Military Affairs.

of 7th Fleet Chinese Amphibious Training Group and, on 3 June 1947, was directed to conduct training and to advise the Chinese Navy under Commander-in-Chief, Pacific Fleet through Commander, Naval Forces Western Pacific.

4. Public Law 512, 79th Congress, approved 16 July 1946,²⁰ and Executive Order 9843 of 25 April 1947²¹ authorized the establishment of a Naval Advisory Group, not to exceed 100 officers and 200 enlisted men to assist China in naval matters. This executive order authorizes the Secretary of the Navy *inter alia*, to train personnel “. . . for such other naval purposes as the Secretary of the Navy may deem proper.”

E. T. WOOLDRIDGE
Rear Admiral, U. S. N.

893.30 Missions/1-2048

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] January 22, 1948.

Congress by Public Law 512 authorized the establishment of a naval advisory group in China. At a conference between State and Navy representatives on February 20, 1947,²² General Marshall indicated that he had no objection to the establishment of a separate naval advisory group but that this was a question to be worked out between the War and Navy Departments.

The Navy, anxious to proceed with the establishment of a separate naval advisory group on the basis of Public Law 512, prepared a draft agreement between United States and China to formalize the activities of the naval advisory group. This agreement was based on a draft combined military and naval advisory group agreement, in which War, Navy and State had already tentatively concurred.

However, the conclusion of a separate agreement for a naval advisory group was strongly opposed by the War Department, and the Secretary of War²³ in letters of April 24, 1947,²⁴ addressed to the Secretaries of State and Navy, advocated the establishment of the joint military advisory group envisaged in SWNCC 83/17,²⁵ which

²⁰ 60 Stat. 539.

²¹ Department of State *Bulletin*, May 4, 1947, p. 821, or 12 *Federal Register* 2763.

²² See minutes of conference, February 20, 1947, *Foreign Relations*, 1947, vol. VI, p. 946.

²³ Robert P. Patterson.

²⁴ *Foreign Relations*, 1947, vol. VII, p. 961.

²⁵ Note by the Secretaries of the State-War-Navy Coordinating Committee, February 13, 1946, *Foreign Relations*, 1946, vol. X, p. 817.

would operate under the war-time powers of the President. Mr. Patterson proposed, should the Department of State not favor such action, that the status quo be continued until the nature of Congressional action on military missions bills was determined.

Faced with strenuous opposition from the War Department, the Navy Department in a memorandum of June 20 for the Secretary of State,²⁶ proposed that the joint advisory group be established when legislation permitted and that in the meantime naval personnel sent to China to form the naval advisory group continue training Chinese crews for ships to be delivered under Public Law 512. The Department in its reply of July 23²⁷ concurred in this proposal.

In a letter dated November 1, 1947,²⁸ the Secretary of National Defense informed the Secretary of State that, if it were decided to submit to the present Congress the bill for military aid to China, he would wish to include certain changes which would, *inter alia*, specifically permit the Air Force to participate in the military advisory group. On December 31, 1947 the Acting Secretary of State suggested to the Secretary of Defense²⁸ that the proposed changes be supplied to the Department of State so that it could be in a position to act with dispatch.

Admiral Wooldridge tells me informally that Navy does not contemplate at this time reviving its program for a separate agreement for the naval advisory group. If, however, the present Congress closes without having provided for the necessary legislation, Navy will then doubtless press for a separate agreement.

It had not previously come to my attention that the Department of the Air Force might, like the Navy, have been giving consideration to a separate agreement with China. In my view, it would be highly desirable to negotiate a single agreement with the Chinese Government in which the unity of command principle were carefully established. However, it seems to me that this is primarily a matter for the armed forces themselves to decide and that we had best avoid committing ourselves in any way, indicating, if asked, that we would be agreeable to whatever arrangements may be decided upon by the armed services concerned.²⁹

A[RTHUR] R. R[INGWALT]

²⁶ *Foreign Relations*, 1947, vol. VII, p. 968.

²⁷ *Ibid.*, p. 970.

²⁸ Not printed.

²⁹ Marginal notation by the Deputy Director of the Office of Far Eastern Affairs (Penfield): "I think we should hold out for one agreement P[enfield]".

893.20/1-2348

The Ambassador in China (Stuart) to the Secretary of State

No. 28

NANKING, January 23, 1948.

[Received February 5.]

SIR: I have the honor to refer to our despatch No. 1144 of December 6, 1947 ³¹ in which we discussed the current military situation in China and suggested means for the improvement of the military position of the Chinese Government through American assistance.

Since the above despatch was drafted the military position of the Government has further deteriorated. Communist operations in the general area of the intersection of the Ping-Han and Lung-Hai railways have successfully disrupted both east-west and north-south rail communications in north central China; General Wang Yao-wu, Commander of Government forces in Shantung, has admitted publicly that his military position is becoming rapidly untenable; in spite of adverse weather conditions in Manchuria the Communists have retained the initiative and have generally remained on the offensive; Lt. General Fisher Hou, Chief of Military Intelligence on the General Staff at Nanking, has admitted that the Communists have the capability of isolating the Northeast from China proper; in recent weeks the Communists have interdicted river shipping west of Hankow and the gradual unfolding of Liu Po-cheng's ³² campaign in central China indicates the design to isolate Szechuan in order to prevent the movement of military rice to Government forces in the east; all sources in contact with Government military circles report that pessimism over the outcome of current campaigns deepens among officers of higher commands at Nanking and among lower echelons in the field and there is progressive, steady deterioration of the morale of all Government forces.

With this situation in mind we have consulted at length with officers of the Army Advisory Group and other qualified military observers in an effort to determine what steps might be taken by the United States to aid the Chinese Government in restoring the military situation to its own advantage and wish to set forth herein in somewhat more detail than in the previous despatch the consensus thus derived.

Consideration of any new program of military assistance to the Chinese Government cannot ignore past and present attempts on the part of the United States to provide China with such aid. As early as 1940 [1941?] an American Military Mission to China sought ways and means for affording the Chinese assistance in their war with

³¹ *Foreign Relations*, 1947, vol. VII, p. 387.

³² Commander of Chinese Communist forces of Central China.

Japan.³³ After Pearl Harbor, as a part of over-all American strategy, we developed a program for the arming and training of a portion of China's armies, with the aim of creating a military machine capable of defeating Japanese forces in the field.

With the capitulation of Japan, the present program of military aid was conceived and put into effect through the Army Advisory Group. This program had as its aim assisting the Chinese to develop a military establishment adequate to permit fulfillment of their obligations as a power. It involved aid in the reduction of China's war-time armies to a point where they could be supported by the economy of the country, the development of a new command structure, the organization of a training program for a new Chinese army and the procurement of certain items of matériel until such time as the Chinese Government would have the capability of supplying its military establishment from its own resources.

The post-war program of military aid to China was planned on the assumption that the creation of a new Chinese military establishment would take place under conditions of internal political stability. Also, the program, in its execution, was conditioned by certain concepts having their origin in the American wartime aid program; these included concepts of training, standards and concepts of size, organization and armament of combat formations. It was further conditioned by the assumption that the United States would be able to implement commitments as to the procurement and delivery of matériel. It was finally conditioned by the assumption that there was no particular urgency for the creation of a new Chinese military establishment; that time was not of the essence, and that its creation could proceed slowly to attain certain long range ends.

All of these assumptions have proven false, and the concepts impractical and invalid. Far from taking place under conditions of internal political stability, the program has been carried out under conditions of armed rebellion and civil war. Although some progress has been made toward the realization of long range ends, the military establishment of the Chinese Government has proven inadequate to force a decision on its own behalf in the civil war, and is in serious danger of defeat and collapse. Concepts of training, composition and armament of Chinese combat organizations stemmed from the experience of American officers in the field with Chinese troops engaged in combat with the Japanese. Training, organization, and armament were therefore dictated in large degree by the enemy to be met. In addition, and perhaps, more importantly, American trained

³³ For correspondence on the American Military Mission to China under Brig. Gen. John A. Magruder in August 1941, see *Foreign Relations*, 1941, vol. v, pp. 680-681, 692, 695-698, 709, 711-712, 742-744, 747, 752.

or equipped Chinese units operated with a line of supply which was completely American, as in Burma, or as in China with American liaison teams which constantly badgered higher Chinese command echelons to see that supplies reached forward elements. The present civil war involves changed circumstances and Chinese formations engaged are neither trained, organized nor armed to meet the new conditions obtaining. The problem facing the United States is, then, the creation of a realistic, practical program of military assistance to the Chinese Government which is in full consonance with the requirements of the current military situation. Any solution for this problem must be based on the assumption, which needs no elaboration, that the military position of the Chinese Government is critical, and that early and effective aid is essential unless the Government is to suffer further severe military defeats and possibly military collapse.

The current military effort of the Government has, to say the least, certain grave handicaps. Among the more pronounced of these are: (1) the proclivity of the Generalissimo,³⁴ a man of proved military incompetence, to interfere on a strategic and tactical level with field operations; (2) the low caliber of many ranking general officers of the Chinese armed forces in terms of their lack of either integrity or professional skill; (3) the failure of the Government to organize an effective service of supply; (4) the failure of the Government to organize an adequate program of military government, or its equivalent, for areas which its forces have reoccupied; (5) the Government's inability to plan and execute a military training program; (6) the inability of the Government to balance its resources in terms of manpower and matériel against the requirements of the prevailing situation and organize these resources for their most efficient employment. A statement of handicaps could be considerably expanded, but those listed constitute the major defects in the Government's military effort which any new program of American military assistance must overcome.

In our despatch No. 1144 of December 6, 1947 we expressed our opinion that problems arising out of the present civil war must be approached on a practical and immediate rather than on an academic and long-range basis. In the same despatch we expressed our opinion that such an approach should take the form of provision for an American Planning Group, with the function of surveying the overall military situation and preparing specific recommendations to meet specific needs in areas where the military situation is most critical. For example, there is need for the planning of military operations

³⁴ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

employing resources now available to the Government and at the same time a need for the development and augmentation of these resources in terms of advice and assistance in the development of a training program which could more quickly produce units trained specifically for existing combat conditions. There is also need for the development of a supply organization capable of supporting these and other units in combat and the training of a staff and command organization capable of handling these units in combat.

The establishment of such a Planning Group, provided that it were integrated with the Government's military organization at a sufficiently high level, would tend to overcome in some degree the handicaps to the Government's military effort specifically listed above. Personnel of this Group should include officers with planning experience on a War Department level, familiar with the technique of long and short term strategic planning. It should also include officers with wartime field experience with Chinese troops.

On the basis of personal knowledge of Embassy officers now serving here the names of the following officers suggest themselves to us as exemplifying the qualifications mentioned :

Brigadier General Paul Carraway
Colonel Joseph K. Dickey
Colonel Allen C. Bennett
Colonel Haydon L. Boatner
Colonel E. J. McNally
Colonel Reynolds Condon
Colonel Paul Freeman
Colonel J. Hart Caughey
Colonel Cecil J. Gridley

The integration of the Planning Group with the Chinese command structure should, as pointed out above, be made at a high level. It is our opinion that the Chief of an American Military Advisory Group for China, with the proposed Planning Group directly under him, should serve as the supreme military advisor for the Generalissimo. Plans developed by the Planning Group, if approved by the Generalissimo, would be passed by him to his Chief of Staff or, as required, to the Ministry of National Defense, for implementation. Other sections of the American Military Advisory Group would then advise and assist in carrying out these plans at a training and supply level.

This arrangement would be of material aid in reintegrating the Chinese command structure. Currently, in theory at least, the top level direction of Government military operations is the responsibility of the Supreme General Staff at Nanking. In practice, however, this group is oftentimes by-passed. The Chief-of-Staff and the Commander-in-Chief of Chinese Ground Forces both hold field com-

mands. Operations are directed by various field headquarters, the commanders of which receive instructions directly from the Generalissimo and his deputies, none of whom are particularly qualified for this responsibility. The result of this system has been failure to coordinate operations and failure to organize and allocate military resources—both in terms of men and matériel—in support of the over-all military effort. A Planning Group such as we have envisaged could exploit the Generalissimo's power of command and thus secure some assurance of implementation of its plans, and could at the same time restore to the Chinese Supreme General Staff at Nanking its proper, logical role as the integrating and coordinating agency for the development of over-all strategic command.

Such a Planning Group would have the advantage of providing a means through which the training functions of a Military Advisory Group could be made to develop Chinese units of the type needed in current hostilities and could be scheduled so as to turn out units as needed to meet the requirements of an over-all strategic plan. Also as part of a Military Advisory Group, the Planning Group would retain a degree of anonymity, and would not necessarily appear to be involved directly in the Government's military operations.

It is our opinion that the augmentation of the present Military Advisory Group by a Planning Group, the specific type and functions of which we have outlined in general terms, would provide the Chinese Government with a type of military aid which it does not now receive, and of which it stands in urgent need. We further believe that such a Planning Group would serve to rationalize and make effective military aid now granted or contemplated, provided that certain minimum requirements of the Planning Group were met. Those requirements would be the provision of adequate information for planning purposes, and the authority to acquire information with regard to the execution of prepared plans.

Military planning involves the disposition of resources to meet concrete or hypothetical situations in which favorable military decisions are sought. No sound planning is possible unless planners have full knowledge of the resources which they are to dispose or allocate. The military planners must also be as well informed as possible with regard to the enemy's capabilities and by balancing one's own capabilities against those of the enemy an estimate of the situation is derived from which the planners dispose available resources. It is our opinion that the Army Advisory Group as at present constituted lacks knowledge of the military situation, either over-all or in particular, sufficient to arrive at a valid estimate of the situation because in accord with the current interpretation of the Army Advisory Group directive,

officers of the Group have no immediate contact with Chinese military operations.

If the suggested Planning Group is to function effectively it must be provided with data on Chinese resources in personnel and matériel. All available information, however, strongly suggests that the Supreme General Staff as now constituted is not capable of providing the required data, particularly in its G-1, G-2, and G-4 Sections. Therefore we consider that at least the Personnel, Intelligence, and Supply Sections of the Supreme General Staff must receive advice and assistance from American personnel and that the Planning Group must also have available to it the services of personnel capable of assembling data produced by Staff Sections of the Supreme General Staff into adequate estimates of the situation.

Planning for military operations is a continuous process and in the interest of preserving continuity, plans must be altered from time to time in light of their implementation in the field. This presupposes contact between planners and field operations, at least with the higher headquarters where field operations are being directed. It is our belief that, for the most part, the highest echelon of the Chinese armed forces, the Supreme General Staff at Nanking is seldom aware of the true state of field operations. For this reason, we believe that there should be assigned to the Planning Group teams of field observers, attached to higher Chinese field headquarters. Ideally, such teams would be assigned as low as regimental headquarters and would have advisory functions. We feel, however, that there are serious objections, mainly of a political nature, to this procedure, and we believe that initially observers should not be attached to echelons lower than army commands. Since teams would have the function of reporting on the local military situation, and might also have certain responsibilities of advising the command to which they are attached on supply matters, the teams would also include communications personnel.

Although we have stressed our conviction that assistance in planning is essential to the success of any program of American military aid to China, we do not intend to imply that no other aid is required. We are of the opinion that American assistance in the development of a training program for the Chinese Government's armed forces has been, and remains an important part of any program. As we have indicated, however, we believe that such assistance is of value only in so far as the system of training it establishes can train military units for the specific military tasks now confronting the Chinese Government.

From such information as is available to us, it would seem that the standards now envisaged by the Army Advisory Group are inordi-

nately high. Time is of the essence and it would seem better to sacrifice high standards for the time being in the interest of producing at least trained replacements, if not completely trained units, in as short a time as possible. Our information is generally to the effect that Communist troops are not highly trained and it would not be an impossible task to produce Government troops as well or slightly better trained within a far shorter period than present planning envisages. We also have reason to believe that Chinese personnel are being trained in the use of matériel unsuited for employment in the type of warfare in which the Government's armies are engaged. Concrete proposals, however, for the reorientation of training programs must, as we have suggested, await adequate studies of the situation and the development of strategic plans. At the moment it must suffice to reiterate our belief that a training program is essential and that the present program does not meet the needs of the prevailing situation.

Another level upon which we feel the Chinese Government requires American aid is the procurement of matériel. Although we are of the opinion that Government forces have far more in the way of matériel than the Communists, this preponderance is rapidly diminishing and the Government will soon be unable under any circumstances to force a decision in the present conflict unless it can receive proper supplies from outside sources. We are also of the opinion that such American equipment as has been received by the Government has not, in all cases, been of types most urgently needed for the present conflict, and that some types are definitely unsuitable. From information available, we are inclined to believe that neither the Chinese command nor the Army Advisory Group has any clear picture of the amount of matériel actually in the hands of the Chinese Government. Therefore, it is our opinion that the American Government should not provide further matériel to the Chinese Government as a part of any program of military aid, unless it be in support of a definite over-all strategic plan having American approval based on a study of matériel now in Chinese hands and American recommendations as to types and employment of matériel best suited to meet tactical requirements.

In the previous despatch under reference we stated our belief that the military problem of the Chinese Government has the closest possible connection with the Government's political and economic problems. The main politico-military problem facing the Government today is the establishment of its authority in areas recovered from the Communists to a point where a civil government can exist without the backing of a strong garrison. Reduced to its simplest terms, this implies the creation of a government capable of attracting popular support. While the military aspects of this problem are not imme-

diately apparent, their existence is undeniable. The Government lacks the organized manpower to maintain large garrisons in politically disaffected regions, and, at the same time, to conduct the large scale offensive operations required to destroy the military power of the Communists. Military aid to the Chinese Government is only a means to achieving the end that the Government regain political control of areas now in Communist hands, and reintegrate these areas politically with the balance of China.

We are of the belief that a solution to the politico-military problem outlined in the preceding paragraph may be found through American assistance in the development of plans for the military government of areas recaptured from the Communists by Government forces. The general concept of military government is sound and is accepted by the Chinese. We believe that if a Military Government Section were made a part of the Army Advisory Group to plan, and advise on the techniques of military government to fit situations as they arose it should, provided that it were adequately staffed and phased into the Chinese military organization, have excellent chances of success.

It is our feeling that a Military Government Section of the Army Advisory Group should be staffed by officers with a formal knowledge of military government techniques, by Americans with knowledge of Chinese politics and economics, and by Americans with practical experience in relief and rehabilitation programs in rural China. The section should also be strongly staffed by Chinese social scientists whose major interests lie in the problems of Chinese rural society, who would serve in an advisory capacity and who would preferably be selected and paid by the Army Advisory Group Military Government Section.

While it is beyond the scope of this despatch to develop our thinking on Military Government at greater length, we believe that the concept, as outlined above, is valid and that it is practical and can be implemented. We further feel that it offers a means toward attaining political and economic stability in areas where, for military reasons, political stability is urgently required. We are also of the opinion that the concept, as we have sketched it, or its equivalent, must form a part of any program of military aid, if the latter is to be effective. We would also point out that an effective military government program would greatly simplify the military problem and probably result in greater economy of force in military operations.

In our thinking on the matter of a program of American military aid to the Chinese Government, we have sought practical objections to the proposals we have advanced. The chief of these objections would appear to be possible reluctance on the part of the Chinese Gov-

ernment to agree to a plan which would entail American supervision of aid in the manner and to the degree which we have suggested. After considering the matter at some length, we have come to the conclusion that the Chinese Government would probably accept the proposals we have outlined, provided they were advanced as integral and inseparable parts of an over-all plan. In the first place, the Government is well aware that its military position is becoming untenable and that assistance is urgently required; for this reason alone we believe that it would be willing to accept aid even at the sacrifice of some autonomy over military affairs. In the second place, there is a growing feeling in all strata of Chinese society that an end to the present military stalemate, in favor of either party, would be preferable to a prolongation of the present situation. For this latter reason we believe that considerations of prestige, which might otherwise mitigate against the Government's accepting such a plan as we propose are not of vital importance. We are also aware of the popular appeal, if not the cogency, of the argument which might be raised against our proposals, in terms of its "involving us in China's civil war". In this connection it may be pointed out that in reality, our proposals merely rationalize and implement the present directive of the Army Advisory Group, and that they could be put into practice unobtrusively and without giving rise to more comment than that to which we are already subject.

We are aware also that the failure of such a plan as proposed herein would probably bring discredit upon the United States and our prestige in Eastern Asia. We submit, however, that it must be approached as a calculated risk bearing in mind in the first place, that such a plan as we propose could be, and would be if adopted, phased into our present aid program and made to appear as a normal extension and development of that program. In the second place, we wish to point out that we are, in certain circles already credited and already damned for interference in China's civil war, and that the obvious failure of our current effort to do other than prolong the conflict, is even now redounding to the discredit of American arms and American policy.

In closing we wish to make clear that it is not our purpose to appear to be blindly critical of the present Army Advisory Group effort. Senior officers of the Group with whom the contents of this despatch have been discussed over a considerable period are conscious of the shortcomings of the current effort, but consider that under the present Army Advisory Group directive, as interpreted, they are estopped from an extension of their activities to the degree necessary to check appreciably the prevailing dangerous deterioration of the Chinese Government's military position. We also tend to believe that there

is developing at all levels in the Army Advisory Group a feeling of frustration because the Group is not permitted to attack the immediately pressing military problems of the Chinese Government and the gradual development of a get-in-or-get-out attitude will create before long an undesirable American morale problem aside from the more important aspect of the growth among Chinese military leaders [of the view?] that they are obtaining no concrete assistance from the Group with regard to the problems at hand.

Respectfully yours,

For the Ambassador:
RAYMOND P. LUDDEN
First Secretary of Embassy

893.30 Missions/1-2048

*The Deputy Director of the Office of Far Eastern Affairs (Penfield)
to the Minister-Counselor of Embassy in China (Clark)*

WASHINGTON, February 2, 1948.

DEAR LEWIS: I have done some exploratory work based on your telegram no. 79 of January 12 and have received from the Navy the enclosed statement³⁵ purporting to set forth the directives under which the Navy training operates. I believe Ringwalt has sent you a copy of his memorandum of January 22 on the background of this situation, which is rather involved, the most important factor apparently being a difference of views between the Army and the Navy on the legal set-up of the Advisory Groups. The Army has set up its Group under the authority contained in the President's directive (issued under his war powers) set forth in SWNCC 83/17.³⁶ The Navy, after it received statutory authority for its operations under P. L. 512,³⁷ decided that it would be inappropriate to set up a Navy Group (or participate in a Joint Group) under this Presidential directive and pressed for approval to set up a separate Navy Group under the authority of P. L. 512. The Army has never agreed to this and after a lot of maneuvering and several false starts the subject was dropped about a year ago. The Navy's present position is that they will take no action until it is possible to make a good guess as to the fate of the general Military Missions Bill.³⁸ If it appears that this bill will be approved by the present session of Congress, the Navy will propose the negotiation of an agreement with the Chinese Government for the

³⁵ January 20, p. 239.

³⁶ *Foreign Relations*, 1946, vol. x, p. 817.

³⁷ Approved July 16, 1946; 60 Stat. 539.

³⁸ H. R. 2313, introduced February 28, 1947 and S. 759, introduced March 3, 1947, *Congressional Record*, 80th Congress, 1st sess., vol. 93, pp. 1579 and 1598, respectively.

setting up of a Joint Military Advisory Group under the authority of this bill. If, on the other hand, it appears that the bill will not pass, the Navy will probably reopen the question of a separate Navy Group under authority of P. L. 512.

In the meantime the Navy Group is still, as you will note from the enclosed, officially designated "Naval Advisory Group Survey Board, China" and the Navy feels that its activities should be strictly limited to the technical training of crews for the ships turned over to the Chinese under P. L. 512.

Incidentally, the Navy informs us that they are under increasing pressure from the Chinese to lend assistance in the establishment and training of a Chinese marine corps and that the attitude they are adopting is that if the Chinese desire American assistance in this field the matter should be taken up on a governmental level. On this subject the following is an excerpt from a letter of July 23, 1947, from the Secretary of State to the Secretary of the Navy: ³⁹

"The State Department feels that it would be unwise at this time for the Chinese Government to divert any of its depleted financial or military resources to developing a new military arm in the form of a Marine Corps. For this reason, . . . it is recommended that this Government refuse training or other support for the proposed Chinese Marine Corps in the immediate future. When conditions in China become more stable, the organization of a Chinese Marine Corps under the Naval Advisory Group, or the amphibious training of some Army units, would appear to be a normal activity tending toward establishment of a balanced Chinese military force."

Sincerely yours,

J. K. PENFIELD

893.20 Mission/2-2148 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, February 21, 1948—4 p. m.

[Received February 24—3:20 a. m.]

91. Wei Li-huang ⁴⁰ requested me make inquiry re availability "two or three" American military advisors assist him training northeastern troops (Contel 121 to Embassy, 89 to Dept. February 20).⁴¹

Sent Embassy as 125, repeated Dept as 91.

WARD

³⁹ *Foreign Relations*, 1947, vol. VII, p. 970.

⁴⁰ Acting Director of Generalissimo Chiang Kai-shek's Northeast Headquarters (PNEH) and Commander-in-Chief of Northeast Bandit Suppression Headquarters (NEBSH).

⁴¹ Vol. VII, p. 103.

893.20/3-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 3, 1948—2 p. m.

[Received March 3—1:20 p. m.]

398. General Barr tells me Gimo⁴² has issued instructions for establishment in Nanking US type individual replacement training center for newly inducted troops. Gimo has requested Barr to assist in organizing and operating this center which it is hoped will be a model for others to be established in near future. I sincerely hope you will see your way possible to authorizing Barr to comply with Gimo's request particularly as this center would be in Nanking as visible public evidence of Gimo's intentions to train troops prior to being sent to front as replacements.

STUART

893.20 Missions/3-448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 4, 1948—2 p. m.

342. Reference your 398 of March 3 the Army Department is preparing an answer. But meanwhile I wish to express my astonishment at Barr's feeling it necessary to ask any such question. I tried to do this myself for over a year in China and expressed myself very forcibly on the question to General Barr when I saw him personally here. The Army Department tells me he has been given no limitations of this nature.

I would appreciate your sending me an eyes only personal telegram to give me some idea of what has brought about such timidity of approach.

MARSHALL

893.20 Missions/3-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 7, 1948—2 p. m.

[Received March 7—6:15 a. m.]

425. Barr has given no evidence of "timidity of approach" to his most difficult task here. He has already inspired Generalissimo's confidence and established excellent relations with all concerned. I

⁴² Generalissimo Chiang Kai-shek.

have sensed no unwillingness on his part to take initiative and assume responsibilities of his job but on contrary have been impressed by his forcefulness and tact in handling his problems. Reason he submitted to Washington Generalissimo's desire to have assistance with replacement training center Nanking was solely because of categoric character of instructions in Deptel 1302, October 24, 5 p. m.⁴³ in connection with establishment training center Taiwan in which it was stated "AAG (Army Advisory Group) will not participate in any other training center without prior concurrence Dept." Barr knew of your efforts to accomplish this and told me how pleased he thought you would be with the development. I personally am much impressed with Barr's grasp of his problems and manner in which he is handling them.

STUART

893.20 Mission/3-1048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 10, 1948—11 a. m.

378. Your 425 of March 7 refers. I stand completely corrected. All of us here, Army included, had lost sight of Deptel 1302. My abject apologies to all concerned. I was delighted to get your reaction to Barr's performance.

Army tells me they authorized him to proceed on this matter within 24 hours of receipt of request.

MARSHALL

Nanking Embassy Files, Lot F73—800 Nationalist-Communist

The Commander, U. S. Naval Forces, Western Pacific (Badger) to the Chief of Naval Operations (Denfeld)

[TSINGTAO, June 9, 1948.]

091101Z. At present rate of deterioration Communist forces will soon control all of North China with exception of a few Nationalist defensive positions which will be completely surrounded and isolated. Industrial activities such as ports, coal mines, factories, railroads essential to economic welfare of China as a whole will be rendered unserviceable or in Communist hands. US influence in North China will be replaced by Soviet.

In spite of this wholly black outlook Communist military strength is by no means so preponderant that Nationalist recovery is beyond possibility if proper conduct of planning and operations is immediately undertaken.

⁴³ *Foreign Relations*, 1947, vol. VII, p. 901.

During past week end a meeting between Ambassador, General Barr and myself was held Nanking to consider ways and means to assist Chinese within scope of existing policies and directives and at same time protect US interests in China. All agreed that immediate adoption broader policy permitting MAG assistance to highest levels of staff Nanking and principal field commanders was essential to improvement and to prevent situation from deteriorating beyond limits of possible recovery.

Principal causes failures and defensive attitude on part of Nats Commanders are poor overall planning with resulting poor operational control and support. The following apply:

(a) Orders from Nanking to take offensive often disregarded [due to?] fact that troops may be inadequately armed or equipped for tasks assigned.

(b) Field Commanders have no assurance that ammunition and equipment will be replenished.

(c) Nat tactics not adapted to combat type of guerrilla warfare waged by Communists.

(d) Communists accept surrender of weapons and equipment by Nationalist troops without holding latter prisoner. This and low Nationalist morale has resulted in five to one ratio in capture of weapons in favor of Communists.

Despite evident lack of offensive spirit believe a few well supported offensive operations are practicable and if successful might turn the tide of steady deterioration. However, without responsible planning and operational assistance Nats face certain defeat. Since there are limits to number of advisors it is practicable to employ, the major efforts should be directed to top echelon in Nanking and to highest field headquarters. A system of decentralized planning could then be instituted at once with field commanders initiating plans and submitting them to Nanking for approval and allotment of adequate support. This in accordance our own procedure during war and particularly applicable to Chinese as it maintains "face" and insures maximum efforts of field commander since initial plan stems from him. This also saves face and reputation of commanders directed to maintain defensive to permit offensive operations elsewhere. Furthermore operations would be conducted on framework of present Chinese organization.

Conferred with Gimo on 6 June and found him not only receptive to advisory assistance but asking for it. Stated specifically that he would decentralize planning and operations if his commanders and staff activities were capable of assuring these responsibilities.

In view of the above recommend that directive to Advisory Groups Nanking be changed to include:

(a) Authority and provisions for advice and assistance in planning and executing operations to highest levels of military command down to and including selected Field Headquarters.

(b) The following "any activities or communications which may affect basic US policy, military situation and plans, deployment of military forces in China or US military commitments in China shall be made known to senior US Military Commander in China (presently ComNavWesPac)".

NOTE: This to provide close coordination necessary in view relationship Advisory activities to ComNavWesPac interests and responsibilities and is desired whether or not recommendation (a) is approved.

In view vital importance this matter I have offered to render all possible assistance to Chief Army Advisory Group who is meeting with me on fourteenth to consider concrete means of placing recommendations in effect if approved in Washington.

Ambassador requested to comment if desired.

893.20 Mission/6-1548

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] June 15, 1948.

Participants: Captain Fitzgerald, USN
 Assistant Chief, Naval Operations, Politico-Military Affairs
 Captain Hummer, USN
 Assistant Chief, Naval Operations, Politico-Military Affairs
 Captain Orem, USN
 Mr. Butterworth, Director for Far Eastern Affairs
 Mr. Sprouse, CA

The three above-named officers of the Navy Department called at Mr. Butterworth's office on June 15 pursuant to Mr. Sprouse's request to Admiral Wooldridge that he see Mr. Butterworth in regard to the decisions reached on the role of U. S. military advisory groups in China. Admiral Wooldridge designated these officers to represent him in view of his absence from Washington.

Mr. Butterworth explained that he wished to inform the Navy Department of the decisions reached in the conference between Secretary Marshall, Secretary Royall,⁴⁴ General Bradley,⁴⁵ General Wedemeyer⁴⁶ and others on June 11⁴⁷ with respect to the role of the U. S. military advisory groups in China. He referred to the recent top

⁴⁴ Kenneth C. Royall, Secretary of the Army.

⁴⁵ Gen. Omar N. Bradley, Chief of Staff, U. S. Army.

⁴⁶ Lt. Gen. Albert C. Wedemeyer, Director of Plans and Operations, Army General Staff.

⁴⁷ For minutes of this conference, see p. 90.

secret telegrams received from the U. S. Army Advisory Group, the Air Division of the Army Advisory Group, Admiral Badger and Ambassador Stuart, all of which gave a similar picture of the seriousness of the situation in China, and handed a copy of Ambassador Stuart's top secret telegram ⁴⁸ on this subject to Captain Fitzgerald to read. The latter in turn furnished Mr. Butterworth a copy of Admiral Badger's top secret telegram ⁴⁹ in this regard.

Mr. Butterworth then went on to explain that it had been agreed at the above-mentioned conference that U. S. military advisers would not be stationed in the operational areas with Chinese Government troops and that the guiding principle of their activities must be the avoidance of U. S. involvement in the civil war in China. He described the various considerations which had led to the decisions and also explained the background of the China Aid Act,⁵⁰ particularly that relating to the \$125 million grants.⁵¹ He further said that Secretary Marshall had expressed the opinion that the U. S. Navy Advisory Group should be permitted to participate in training and instruction of the Chinese naval crews both in port and at sea since involvement in the civil war could be avoided in this field in a way that was not possible with ground forces.

Mr. Butterworth concluded that he was giving Captain Fitzgerald and his colleagues a description of Secretary Marshall's conference with officers of the Department of the Army because the conference had been held as a result of the recent telegrams from the U. S. Army Advisory Group in China, Admiral Badger and Ambassador Stuart and because the decisions reached serve as the basis for the future role of the U. S. advisory groups in China and thus were of concern to the Navy Department.

Captain Fitzgerald expressed his appreciation of Mr. Butterworth's action in conveying this information to the Navy Department and pointed out that it was to be regretted that the Navy Department had not long ago gone ahead with plans to establish a separate Naval Advisory Group as authorized under Public Law 512.

893.20 Mission/6-1548

Memorandum by the Chief of the Division of Chinese Affairs (Sprouse) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] June 15, 1948.

In the light of the discussions on June 11 between Secretary Marshall, Secretary Royall and others in regard to the role of the U. S.

⁴⁸ Probably telegram No. 1044, June 9, from Nanking, vol. VII, p. 282.

⁴⁹ *Supra*.

⁵⁰ Approved April 3, 1948; 62 Stat. 158.

⁵¹ For correspondence on this subject, see pp. 73 ff.

Army Advisory Group, the following comment is offered on the attached Joint Chiefs of Staff directive:

1. In paragraph 5 the mission of the JUSMAGChina is stated as follows:

"The mission of JUSMAGChina will be to assist and advise the Chinese Government in the development of modern armed forces for the fulfillment of those obligations which may devolve upon China under her international agreements, including the United Nations, for the establishment of adequate control of liberated areas in China, including Manchuria, and Formosa, and for the maintenance of internal peace and security."

To state that the mission of the JUSMAGChina is to assist and advise the Chinese Government in the development of modern armed forces "for the establishment of adequate control of liberated areas in China, including Manchuria, and Formosa, and for the maintenance of internal peace and security" is, in a sense, committing the U. S. Government to intervention in the civil war. This section uses language which was applicable during the immediate post-war period but which no longer seems appropriate. This language is that used in the Presidential Directive of February 25, 1946⁵² authorizing the establishment of a U. S. Military Advisory Group to China. The same end could be attained without the use of such language by saying "to assist and advise the Chinese Government in the development of modern armed forces for the purpose of enabling China to create a national military establishment consonant with its national defense needs and to fulfill its obligations as a member of the United Nations".

2. In paragraph 6a. (5) one of the functions of the Joint Advisory Council of the JUSMAGChina is described as "furnishing advice and assistance to the Chinese armed forces in the establishment and operation of a joint procurement and distribution system."

If this "assistance" is taken to include assistance in operation of procurement in China, such a procedure is highly questionable, particularly in view of the past record of the Chinese Army in procurement procedures often involving outright requisition without reimbursement and other dubious practices. This same function is listed as one of the functions of the Naval Advisory Division under paragraph 6c. (2).

3. In paragraph 6b. (1) one of the functions of the Army Advisory Division is described as follows: "Assist and advise in the organization, training and equipping of all Chinese army forces."

Under paragraph 6c. (1) one of the functions of the Naval Advisory

⁵² Directive to the Secretaries of State, War, and the Navy, *Foreign Relations*, 1946, vol. x, p. 823.

Division is described as follows: "Assist and advise in the organization, training and equipping of all Chinese naval forces" etc.

Under paragraph 6*d*. (1) one of the functions of the Air Force Advisory Division is described as follows: "Assist and advise in the organization, training and equipping of all Chinese air forces."

This would seem to commit the U. S. Government formally to the provision of equipment for all Chinese armed services and it seems to be contrary to the general intent of the discussions on June 11.

4. In paragraph 7*b*. it is stated that "activities will be so conducted that U. S. personnel will not participate, or appear to be engaged, in operations in combat areas". This sentence is not altogether clear and it would seem desirable to have some clarification of its meaning.

5. Relationship of the JUSMAGChina and the U. S. Ambassador in China is not as clearly defined as was the case in the directive dated February 7, 1947⁵³ which served as the basis for the Joint Chiefs of Staff directive. In the February 7 directive it was stated that the chief of the U. S. Military Advisory Group would be "directly under and responsible to the U. S. Ambassador to China in matters of policy". It was also stated that the U. S. Military Advisory Group would "advise the American Ambassador at all times as to the status of MAGIC activities". The attached directive describes this relationship as follows: The JUSMAGChina will "keep the American Ambassador advised of pertinent activities" and "all communications relating to policy between the Chinese Government and JUSMAGChina will be directed through the U. S. Ambassador or in his absence the Chargé d'Affaires".

6. It is believed that the Joint Chiefs of Staff should be informed of the views of the Department regarding the functions of the Naval Advisory Group in China, which were contained in the following statement read by the Secretary in his meeting with Secretary Royall, General Bradley, General Wedemeyer and others on June 11:

"The Department of State would have no objection to U. S. Naval officers assisting in the instruction and training of Chinese naval crews both at sea and in port."

[Annex]

Draft Directive by the Joint Chiefs of Staff Governing the Establishment and the Operation of the Joint U. S. Military Advisory Group to the Republic of China

1. The Joint U. S. Military Advisory Group to the Republic of China (JUSMAGChina) is established hereby.

⁵³ Not printed.

2. JUSMAGChina will be organized in accordance with and governed by the provisions of this directive.

3. Organization:

a. General

JUSMAGChina will be composed of an Army Advisory Division responsible to the Army Department for Army matters, a Naval Advisory Division responsible to the Navy Department for Navy matters, and an Air Force Advisory Division responsible to the Air Force Department for Air Force matters. For matters in which the Army, Naval and Air Force Advisory Divisions have joint interest, JUSMAGChina will be responsible to the Joint Chiefs of Staff through the Director, who will communicate directly with the Joint Chiefs of Staff on such matters.

b. Joint Organization

The Chiefs of the Army, Naval and Air Force Advisory Divisions will be designated by the Joint Chiefs of Staff. The senior of these three Chiefs will be the Director of JUSMAGChina. (As a matter of policy, the seniority of the Chiefs will be so arranged as to cause the position of Director to rotate periodically among the three services.) The other Chiefs will be Deputy Directors. The next senior Deputy Director will act for the Director in the latter's absence. The Director and the Deputy Directors together will constitute an overall coordinating agency to be known as the Joint Advisory Council. To assist this agency in carrying out its functions, the Joint Advisory Council will establish a Joint Secretariat, a Joint Planning Staff and such other joint agencies as may be found necessary. The purpose and the relationship of these joint agencies to the Joint Advisory Council shall be similar in general to that of Joint Chiefs of Staff agencies to the Joint Chiefs of Staff.

(1) The Joint Secretariat shall consist of officers of appropriate rank from each service, and of suitable enlisted personnel.

(2) The Joint Planning Staff shall be composed of officers of appropriate rank and equal number from each service. The size of this staff shall be established by the Joint Advisory Council but it shall be kept small in size.

4. Strength. The initial personnel strength of the JUSMAGChina will not exceed 1,000 officers and enlisted men. The individual strengths of the Army, Naval and Air Force Advisory Divisions will be determined by the Joint Chiefs of Staff after considering recommendations thereon by the Director and by the Chiefs of the Army, Naval and Air Force Advisory Divisions. These recommendations will be based on the assumption that JUSMAGChina will include such personnel as are required to make JUSMAGChina logistically

self-supporting for such support as cannot be provided by the Chinese Government to maintain a reasonable standard of living for U. S. personnel of the Joint Group. Based on the above concept of a logistically self-supporting JUSMAGChina, the Joint Advisory Council should from time to time review the personnel strength of the Joint Group and submit appropriate recommendations for increase or decrease to the Joint Chiefs of Staff.

5. Mission. The mission of JUSMAGChina will be to assist and advise the Chinese Government in the development of modern armed forces for the fulfillment of those obligations which may devolve upon China under her international agreements, including the United Nations, for the establishment of adequate control over liberated areas in China, including Manchuria, and Formosa, and for the maintenance of internal peace and security.

6. Functions

a. Joint Functions

The Joint Advisory Council, functioning in a manner similar to the Joint Chiefs of Staff, will be responsible for:

(1) The coordination of the activities of the Army, Naval and Air Force Advisory Divisions and for insuring unity in matters of joint concern.

(2) Advising and assisting the Head of the Chinese Government in the methods of preparing and developing over-all strategic plans, in the development of a joint military organization, and along such lines as may be directed from time to time by the Joint Chiefs of Staff.

(3) Encouraging the continuation and development of Chinese joint weather, communications and intelligence services.

(4) Controlling all Public Information and Public Relations matters of the Joint Group or any of its component service Divisions.

(5) Furnishing advice and assistance to the Chinese Armed Forces on the establishment and operation of a joint procurement and distribution system.

(6) Promoting the standardization of Chinese Army, Navy and Air Force equipment and encouraging the use of material of U. S. manufacture and design.

(7) Facilitating exchange of information and avoiding duplication of effort between the Army, Naval and Air Force Advisory Divisions.

(8) Performing any special missions as directed.

b. Army Advisory Division Functions

The Army Advisory Division will provide advice, assistance and instructions to the Chinese on Army matters as follows:

(1) Assist and advise in the organization, training and equipping of all Chinese Army forces.

(2) Advise and assist in the organization, training and equipping of Chinese supply, transportation and technical development organi-

zations which are required to provide logistic support to the Chinese Army forces and common user items to the Chinese Navy and Air Force forces.

c. Naval Advisory Division Functions

The Naval Advisory Division will provide advice, assistance and instruction to the Chinese on naval matters as follows:

(1) Assist and advise in the organization, training and equipping of all Chinese Navy forces (including naval aviation), and Chinese Marine Corps forces if and when established.

(2) Extend advice and assistance in the establishment and operation of a joint procurement and distribution system insofar as it involves furnishing common user items for the Chinese Naval Service.

(3) Advise and assist in the hydrographic survey of the China coast.

d. Air Force Advisory Division Functions

The Air Force Advisory Division will provide advice, assistance and instruction to the Chinese on Air Force matters as follows:

(1) Assist and advise in the organization, training and equipping of all Chinese Air Force forces.

(2) Advise and assist in the organization, training and equipping of Chinese supply, transportation and technical development organizations which are required to provide logistic support to the Chinese Air Force forces.

7. General. The functions of JUSMAGChina will be governed by the following broad principles:

a. Occupy the field of military cooperation in China to the exclusion of all other-than-United States participation and influence, insofar as is compatible with governmental agreements.

b. Activities will be so conducted that U. S. personnel will not participate, or appear to be engaged, in operations in combat areas.

c. Keep the American Ambassador advised of pertinent activities.

d. JUSMAGChina personnel will not become involved in Chinese political affairs in implementation of this directive, nor will they assume any duties as a result of which they will be responsible to the Chinese Government.

e. Personnel of JUSMAGChina will continue the policy of fostering friendly relations and strengthening the ties of U. S.-Chinese solidarity.

f. Advice and assistance rendered to the Chinese Government will be in conformity with the military doctrines of the Armed Forces of the United States, adapted to the existing situation in China.

g. The Chiefs of the Army, Navy and Air Force Advisory Divisions are authorized direct communication with the U. S. Army, Navy and

Air Force Departments on technical, administrative and similar matters of concern only to their respective services.

h. The Director of JUSMAGChina will exercise supervision over facilities and cross-servicing of the Army, Navy and Air Force Advisory Divisions to assure maximum economy and efficiency of local administration and logistics. The U. S. Armed Service which provides supplies or services to any other Service, in accordance with the provision of this paragraph, will be reimbursed the cost thereof by the receiving Service in accordance with existing regulations.

i. Should any question arise as to the interpretation of any part of this directive, or as to the Director's responsibilities as coordinator in matters not covered herein, it will be referred to the Joint Chiefs of Staff for decision by or through the Director of JUSMAGChina.

j. All communications relating to policy between the Chinese Government and JUSMAGChina will be directed through the U. S. Ambassador or in his absence the Chargé d'Affaires.

8. Review of U. S. Military Assistance to China. The Joint Advisory Council shall appraise and review periodically, in consultation with the United States Ambassador to China, the means, methods and degree of extending assistance to the Republic of China in accordance with Public Law 512 and any other pertinent laws; and the Director of JUSMAGChina will submit semiannually detailed recommendations for continuation or modification of such means, methods and degree to the Joint Chiefs of Staff.

9. Equipment for China. Any provision of U. S. Army, Navy and Air Force equipment and supplies to the Chinese armed forces will be in accordance with such agreements thereon as may be entered into on the governmental level. Requests from the Chinese Government for military supplies and equipment will be referred to the Director of the Joint Group for appropriate recommendations.

10. Relationships with officials and agencies of the Chinese Government.

a. The Director, JUSMAGChina, acting as the unified channel of communication for all the Chiefs, is authorized direct communication with the following, on subjects enumerated :

(1) The President of the Republic of China, in his capacity as Supreme Commander of the Chinese Forces, on matters of a purely military nature.

(2) Other agencies of the Government of the Republic of China, on matters relating to the mission and to the joint functions of JUSMAGChina.

b. These provisions in no way affect direct communications between the Chief of any of the Advisory Divisions and appropriate depart-

ments of the Chinese Government on matters pertaining wholly to the business of his Division, and which have no effect on the business of any other Division.

c. If any of the above-mentioned matters are of concern to the Chief of more than one Division, no approach will be made to officials, agencies or departments of the Chinese Government unless all the interested members of the Joint Advisory Council concur, or, if it is impossible to reach an agreement, until the Joint Chiefs of Staff have approved the approach.

11. Requests for Training of Chinese in Training Establishments of the U. S. Armed Forces. All requests of the Chinese Government for the military training in the United States of Chinese citizens will be submitted to the Director of the Joint Group for appropriate recommendations thereon before forwarding to the appropriate U. S. Agency for consideration. Before recommending approval of such requests, the Director will insure that individual Chinese are cleared politically by the Chief of the Diplomatic Mission in China.

12. *Relationship with Attachés.* It is essential that cordial and co-operative relations be established between the Chiefs of the three service Divisions and the U. S. Military, Naval and Air Force Attachés. The Military, Naval and Air Force Attachés, as members of the chief of diplomatic mission's staff, and respectively as representatives of the Secretaries of the Army, Navy and the Air Force, and of the respective military services, act as Army, Navy and Air Force advisors to the United States Ambassador to China. The Chiefs of the three service Divisions are not subject to the control of the Military, the Naval, or the Air Force Attaché, but they should keep them informed of pertinent activities and problems pertaining to their Divisions.

893.20 Mission/6-1548

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse) to Brigadier General Marshall S. Carter*⁵⁴

[WASHINGTON,] June 15, 1948.

Attached is a memorandum⁵⁵ approved by Mr. Butterworth, commenting on the Joint Chiefs of Staff Directive for the establishment of a Joint Military Advisory Group to China. This directive (copy attached)⁵⁶ was handed to Mr. Butterworth on June 12 by General Schuyler⁵⁷ and General Luedecke⁵⁸ with the request that he look it

⁵⁴ Special Assistant to the Secretary of State.

⁵⁵ *Ante*, p. 257.

⁵⁶ *Ante*, p. 259.

⁵⁷ Brig. Gen. C. V. R. Schuyler, of the Division of Plans and Operations, Army General Staff.

⁵⁸ Brig. Gen. Albin R. Luedecke, member of the staff of the Joint Chiefs of Staff.

over in the light of the Secretary's meeting with Mr. Royall and others on June 11 and give them his comments. General Gruenther⁵⁹ telephoned Mr. Butterworth this morning to ask that these comments be made available not later than 4 p. m. today for a Joint Chiefs of Staff meeting.

Mr. Butterworth desires that this memorandum and the directive be submitted to the Secretary for his approval before any comment is communicated to the JCS. He suggests that you get in touch with General Gruenther on this matter after the Secretary has read the documents and commented thereon.⁶⁰

893.20 Mission/6-1648

Memorandum by Brigadier General Marshall S. Carter to the Director of the Joint Staff of the Joint Chiefs of Staff (Gruenther)

[WASHINGTON,] June 16, 1948.

General Marshall has read the draft of the directive furnished him yesterday. He has these comments to make:

The latter part of Paragraph 5 uses language which was applicable during the immediate postwar period, but which no longer appears appropriate. The language is actually that used in the Presidential Directive of February 25, 1946. It would appear better should the paragraph be completed with the following: "to assist and advise the Chinese Government in the development of modern armed forces for the purpose of enabling China to create a national military establishment in keeping with its national defense needs and to fulfill its obligations as a member of the United Nations." The specific references to liberated areas, including Manchuria and Formosa, appear unwise.

Paragraph 6 *a* (5) gives one the functions of the Joint Advisory Council as "furnishing advice and assistance to the Chinese armed forces in the establishment and operation of a joint procurement and distribution system." This is probably all right. However, there is a questionable factor involved in the Chinese habit of procurement procedures of outright requisition without reimbursement, and some other dubious practices.

⁵⁹ Maj. Gen. A. M. Gruenther, Director of the Joint Staff of the Joint Chiefs of Staff.

⁶⁰ On June 16 Mr. Butterworth wrote an additional memorandum to General Carter stating: "Incidentally, I think the attempt to attain coordination through rotation of command in this instance is little short of absurd though I did not touch on that matter in the memorandum. To have the Army and Air Advisory Groups under the command of the Admiral-in-charge of the Naval Advisory Group, most of which is located in Tsingtao in the work of which the Chinese Government is, in fact, but little interested, will appear to the Chinese strange indeed." (893.20 Mission/6-1648)

In Paragraphs 6 *b* (1), 6 *c* (1) and 6 *d* (1) the expression, "and equipping of all Chinese _____ forces" is employed. Whether or not this involves an implied commitment of the United States Government to the provision of equipment for all Chinese armed services is uncertain. It would appear better to insert the word "and" between "organization, training", and to omit the words "and equipping". Under the expression "organization" character of equipment is, of course, implied, which is the important consideration.

The relationship between JUSMA and the United States Ambassador is not as clearly defined as it was in the directive of February 7, 1947.⁶¹ However, the new wording is probably all right.

General Marshall had thought that the specific statement might be made in regard to naval matters which would be very helpful to the Chinese Government and at the same time would not probably involve us in unfortunate implications. What he had in mind was a statement such as this: "There is no objection to U. S. naval officers assisting in the instruction and training of Chinese naval crews *both at sea and in port.*"

MARSHALL S. CARTER

893.20 Mission/7-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

[Extracts]

NANKING, July 11, 1948—noon.

[Received July 11—4:22 a. m.]

1261. With the authority given me by the President to supervise and coordinate the activities of US agencies in China, I have sought to harmonize the conflicting personalities and interests of Admiral Badger, ComNavWesPac, General Barr, Chief AAG, and Admiral Thurber,⁶² Chief NAG. My efforts have not resulted in complete success and I feel I should bring the situation to your personal attention for such remedial action if any you may deem desirable. There is not only a conflict of personalities but also a conflicting concept of the problem.

I bring this situation to your personal attention in the belief that if the interests of the United States are not to suffer the system of unified command that worked so well during the war should be instituted immediately in the Advisory Group in China. The Army interest being the predominant one, I strongly recommend that Barr be

⁶¹ Not printed.

⁶² Rear Adm. Harry R. Thurber had succeeded Rear Adm. S. S. Murray as Senior Member of the Naval Advisory Group Survey Board.

made Chief of a reorganized Military Advisory Group comprised of Ground Forces, Air and Navy sections. Such reorganizations should assure coordinated effort in the Advisory Group and at the same time provide forum with representation from each service to which Badger as ComNavWesPac could submit his recommendations.⁶³

STUART

893.20 Mission/7-2648

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 26 July 1948.

DEAR MR. SECRETARY: The Joint Chiefs of Staff have concluded, and I agree, that it would be desirable to establish a Joint U. S. Military Advisory Group to the Republic of China at the earliest possible date. The following is the substance of the views which they have expressed to me concerning the desirability of taking this step, and concerning the question of whether further negotiations with the Chinese Government are a necessary prerequisite thereto:

"In a memorandum dated 24 October 1945, the Joint Chiefs of Staff informed the State-War-Navy Coordinating Committee that they believed a U. S. Military Advisory Group should be established in China; requested the State Department to negotiate required contracts between the United States and China for its establishment; and requested the War and Navy Departments jointly to propose necessary legislation. Subsequent to this memorandum, the only pertinent legislation which has become law is Public Law 512 authorizing among other things, detailing Navy and Marine Corps personnel for advising the Chinese, although other pertinent legislation, HR 2313, known as the Missions Bill, passed the House on 16 February 1948 and is currently before the Senate.

"In a memorandum dated 13 February 1946, the Joint Chiefs of Staff reaffirmed to the State-War-Navy Coordinating Committee their belief that a Military Advisory Group should be established in China, and recommended, as an initial action, that the Secretary of State propose to the President issuance of a directive to establish such a Group. On 25 February 1946, the President directed the Secretaries of War and the Navy to establish jointly such a Group and directed the Secretary of State to conduct necessary negotiations with the Chinese. It is understood that to date these necessary negotiations have not been completed.

"In the absence of any legislation specifically providing for the establishment of this Joint Group, the Judge Advocate Generals of the Army, Navy, and Air Force are agreed that the Army (including the present Air Force) and Navy are authorized, pursuant to the Act of 19 May 1926 (44 Stat. 565) as amended (10 U. S. C. 540), during the continued existence of the present war or declared national emer-

⁶³ Rear Adm. Francis P. Old was appointed to succeed Rear Adm. Thurber in August 1948.

gency, to furnish officers and enlisted men of the various services to advise and assist the Republic of China by means of a Joint Military Advisory Group to China. In their view, this will accord with the directives of the President of 25 February 1946 in all respects, save possibly the provision in the President's directive that 'the Secretary of State will conduct the necessary negotiations with the various governments'. As to this aspect, since there are now, under various titles, groups of the three services in China on independent advisory missions, presumably with the assent of the Chinese Government, it would appear that, with the concurrence of the Secretary of State, the three independent groups can be consolidated without entailing further detailed negotiations with the Chinese Government; that, therefore, the President's directive as to negotiations may be considered as having been fulfilled, and that consolidation of the groups may proceed unless new detailed arrangements with the Chinese Government are believed necessary by the respective Services, or by the Secretary of State. The Joint Chiefs of Staff are of the opinion that the act of consolidating the three service groups now in China on advisory missions, as recommended in the proposed directive, does not require the prior consummation of pending negotiations or new detailed arrangements by the Secretary of State with the Chinese Government.

"On 20 December 1945, the Joint Chiefs of Staff submitted to the Secretaries of War and the Navy a detailed plan for a Joint Army-Navy U. S. Military Advisory Group to China which they recommended be adopted as the basic directive to the Chiefs of the respective service groups. The Joint Chiefs of Staff consider that their original plan is sound, although in need of certain modifications to take account of developments occurring since it was first prepared and to incorporate certain proposals submitted by the Secretary of the Army. They have modified it and attach it hereto (Enclosure 'A' ⁶⁴)."

If you concur in our conclusions that the establishment of such a Group is desirable, and is possible without the conclusion of further negotiations with the Chinese Government, I would appreciate word to that effect at the earliest possible date. On the other hand, if you believe that further negotiations with the Chinese Government must precede the establishment of this Group, I would be grateful if you would proceed to conclude such negotiations as soon as possible.

Sincerely yours,

JAMES FORRESTAL

893.20 Mission/7-2648

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, August 4, 1948.

DEAR MR. SECRETARY: I have your letter of July 26, 1948 concerning the recommendation of the Joint Chiefs of Staff, in which you concur, that it would be desirable to establish a Joint United States Military Advisory Group in China at the earliest possible date.

⁶⁴ Not attached to file copy.

Negotiations with the Chinese Government with respect to the establishment of a joint advisory group have not been completed though informal negotiations between representatives of the Chinese and United States Governments had resulted in the preparation of a draft agreement. The Secretary of War, Mr. Patterson, in a letter of April 24, 1947 to the Secretary of State⁶⁵ enclosed a copy of his letter to the Secretary of the Navy in which he recommended the establishment of a joint mission. In a memorandum of June 20, 1947 for the Secretary of State on "Naval Activities Affecting China" the Secretary of the Navy recommended that a joint military advisory group be formed when legislation permitted.⁶⁶ Since no such legislative authorization has been obtained, we have taken no further steps to conclude an agreement with the Chinese Government for a joint mission.

I concur in the views expressed in your letter that the Navy and the Army, including the present Air Force, are authorized "pursuant to the Act of 19 May 1926 (44 Stat. 565) as amended (10 U. S. C. 540), during the continued existence of the present war or declared national emergency, to furnish officers and enlisted men of the various services to advise and assist the Republic of China by means of a Joint Military Advisory Group to China."

I also concur in your opinion that the establishment of such a group is desirable and may be effected without the conclusion of further negotiations with the Chinese Government. It is understood that the appropriate Chinese authorities will be informed of the proposed reorganization prior to the time it is undertaken.

The draft directive forwarded with your letter meets with my approval.

Faithfully yours,

G. C. MARSHALL

[Subsequently, the Joint Chiefs of Staff authorized establishment of a Joint U. S. Military Advisory Group to the Republic of China (JUSMAGChina). On October 28 Generalissimo Chiang Kai-shek was informed that JUSMAGChina had been established, with Major General David D. Barr as Director and Chief of the Army Advisory Division, Rear Adm. Francis P. Old as Deputy Director and Chief of the Naval Advisory Division, Brig. Gen. Charles E. Thomas as Deputy Director and Chief of the Air Force Advisory Division, and Col. John C. Daly as Chief of the Combined Services Division.

After the Chinese Communist victories in Manchuria in October-November, the Joint Chiefs of Staff instructed General Barr on

⁶⁵ *Foreign Relations*, 1947, vol. VII, p. 961.

⁶⁶ *Ibid.*

November 26 that the Joint United States Military Advisory Group would be withdrawn and its activities suspended if (1) Nanking was threatened directly by military attack, (2) if the National Government moved from Nanking, or (3) if the National Government fell. [Withdrawal began in December and was completed March 1, 1949.]

IV. REQUESTS BY THE CHINESE GOVERNMENT FOR ASSISTANCE IN EVACUATION OF CHINESE AIR FORCE EQUIPMENT FROM SHANGHAI AND REMOVAL OF SURPLUS PROPERTY FROM TSINGTAO AND SHANGHAI

893.248/12-148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 1, 1948—4 p. m.

[Received December 1—6:29 a. m.]

2591. General Thomas ⁶⁷ has asked ECA ⁶⁸ whether it would be prepared to assist in evacuation of certain Chinese Air Force material and equipment to safer places. ECA has referred policy question to me and I have made it clear that Department's views must be obtained. It is not clear to ECA exactly what is involved nor does ECA now know to what extent it could in a practical sense help.

Since this would seem rather direct intervention in Chinese civil war and since we doubt ECA has legislative authority to undertake this operation we question whether ECA should do so. I should nevertheless appreciate Department's urgent instructions since policy decisions now reportedly being reached in Washington may affect decision in this matter.

Sent Department 2591; repeated Nanking 1958.

CABOT

893.50 Recovery/12-148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 1, 1948—5 p. m.

[Received December 1—3:15 p. m.]

2592. I am concerned at prospect there may be substantial quantities of movable assets in Shanghai if and when the Communists take city. In some cases, i. e. Bosey ⁶⁹ and Botra ⁷⁰ items, I doubt anything can be done about it and in others, for example ECA food, I feel

⁶⁷ Brig. Gen. Charles E. Thomas, Chief of the Air Force Division, Joint U. S. Military Advisory Group in China (JUSMAG).

⁶⁸ Economic Cooperation Administration.

⁶⁹ Board of Supplies of the Chinese Executive Yuan.

⁷⁰ Board of Trustees for Rehabilitation Affairs of the Chinese Government.

that for humanitarian reasons we should not take precautionary measures to reduce supplies. However, that in case of oil supplies it would be advisable I do strongly feel, to maintain stocks at minimum needed for security regular supply. Oil is essential to run local public utilities. One of first problems Communists must face is assurance of adequate oil supplies. I feel that as they must confront this problem immediately on taking city, the greater their need the better their behavior is likely to be both towards local population and towards us.

It would seem undesirable to remove any oil supplies now here. I suggest, however, that Department consider advisability of discussing situation with ECA since ECA is in a position by reducing shipments to implement this policy if it is considered a wise one. However, substantially all of large bonded stocks now here belong to oil companies awaiting settlement of a disagreement with ECA regarding payment.⁷¹

I gather that Chinese [*China*] ECA mission feels we should continue to distribute any ECA supplies which are here even after any turnover of power which may occur. While agreeing with this I do not think it necessarily conflicts with suggestion above.

Since Shell has important operations here, British concurrence would probably be necessary. There is some reason to suppose that British, despite difficulties Communists would presumably have in making payments, are prepared to do business with Communists.

Sent Department, repeated Nanking 1960.

CABOT

893.248/12-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 2, 1948—3 p. m.

[Received December 2—5 : 27 a. m.]

2397. Through his representative Nanking, Lapham⁷² has asked our reaction projected evacuation Chinese Air Force material (Shanghai's 2591 December 1, repeated Nanking 1958). Regardless of ECA legislative authority to undertake operation, we feel that all ECA operations would be prejudiced by such an undertaking. Evacuated material in question would constitute active participation in civil conflict in effort deprive Communists of what they may consider rightful booty and should Shanghai fall. Such action on part ECA would unquestionably prejudice personal safety its representative which we understand it plans leave Peiping, Tientsin at least on temporary

⁷¹ For correspondence regarding oil stocks, see pp. 275 ff.

⁷² Roger D. Lapham, Chief of the China Mission, Economic Cooperation Administration.

basis in event Communist occupation. We feel most strongly that suggested action would be ill-advised.

We concur undesirability preventing valuable equipment falling into hands Communists and suggest more appropriate ECA approach would be through pressure through CUSA.⁷³ Equipment in question was delivered Shanghai by Bosey and it should be possible for Bosey to transport it elsewhere.

Sent Department 2397, repeated Shanghai 1196.

STUART

893.248/12-148 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 2, 1948—6 p. m.

2082. Subject urtel 2591 Dec 1 discussed with ECA. We consider movement Chi Air Force mil equipment inappropriate operation for ECA participation in any guise and concur generally with views expressed Embtel 2397 Dec 2 (rptd Shanghai 1196).

Dept is, however, concerned lest such equipment fall into hands Chi Comms. We understand problem primarily one of packing and freight charges. Suggest Emb approach FonMin this regard stressing desirability immediate action remove equipment safer location. Emb should also discuss matter with Gen Barr⁷⁴ and Adm Badger⁷⁵ ascertain whether they in position urge Chinese action or otherwise find solution this problem.

LOVETT

893.248/12-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 7, 1948—3 p. m.

[Received December 7—6:31 a. m.]

2443. Embassy discussed with Foreign Minister⁷⁶ December 4 movement CAF equipment to Taiwan (reference Deptel 2082, December 2 to Shanghai, repeated Nanking as 1759) and urged extreme desirability Chinese effective action to remove equipment. Foreign Minister not hopeful of Chinese ability secure necessary bottoms.

At Embassy meeting December 6 with General Barr, Admiral

⁷³ Council for United States Aid of the Chinese Government.

⁷⁴ Maj. Gen. David G. Barr, Director of the Joint U. S. Military Advisory Group in China.

⁷⁵ Vice Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.

⁷⁶ Wang Shih-chieh.

Old,⁷⁷ Colonel Saunders representing General Thomas, and Crowe⁷⁸ of ECA, possibilities US assistance further explored. General Thomas will put pressure on Chinese to exert maximum efforts. Admiral Old will approach Admiral Badger to ascertain feasibility use of US Navy transportation for this purpose.

Sent Department, repeated Shanghai 1227 for Lapham.

STUART

893.248/12-748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 11, 1948—3 p. m.

1810. Urtel 2443 Dec. 7. Dept understands ComNavWesPac does not have shipping available remove CAF supplies from Shanghai. In any event use US naval vessels transport between Chinese ports Chinese-owned military matériel previously delivered China under aid program would represent direct participation fratricidal war which contrary established policy. However, Emb should energetically pursue matter with FonOff and ConGen take similar action Shanghai with appropriate Chinese authorities to end that these supplies furnished Chi Govt by US should not be allowed fall into Chi Comm possession. You should suggest to Chi authorities use for removal these supplies shipping turned over by US to Chi Govt.

LOVETT

893.248/12-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 13, 1948—4 p. m.

[Received December 13—9:03 a. m.]

2506. We were called to Foreign Office December 13 by Vice Foreign Minister George Yeh requesting that we reexplore possibilities assisting Chinese removal CAF supplies from Shanghai. We took [action?] directed in Deptel 1810, December 11, and Foreign Office is canvassing possibility using shipping turn[ed] over China by US. In meantime we are asked to inquire of Department re possibility Bosey acquiring American flagshipping under charter party for removal these supplies. In effort avoid charge participation fratricidal warfare, Yeh asked us inquire whether movement could not be considered redirection of shipment to Taiwan rather than to Shanghai,

⁷⁷ Rear Adm. Francis T. Old, Chief of the Naval Advisory Division, Joint U. S. Military Advisory Group in China.

⁷⁸ Philip K. Crowe.

maintaining majority supplies still in original packages. We are continuing pressure Chinese use their own devices remove supplies but would appreciate Department's reaction Foreign Office request.

STUART

893.248/12-1348 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 14, 1948—6 p. m.

1826. Urtel 2506 Dec 13. If Chi Govt through Bosey can obtain under charter American flag shipping non-US Govt ownership for movement these supplies, Dept has no objection but would point out such use US commercial shipping between Chinese ports would seem violation Chinese law, point upon which Chi Govt has been particularly insistent.

Somewhat concerned ur statement majority supplies still in original packages. Report description, origin and date arrival China supplies in question.

LOVETT

893.248/12-1548 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 15, 1948—2 p. m.

[Received December 15—9: 26 a. m.]

2779. Re Deptel 2160, December 12, repeated Nanking 1810. CAF now moving out some materials on Chinese ships arranged by CAF direct. Everett Steamship Co. offering provide possible 7 vessels various flags within next 3 weeks.

Initiative now rests with CAF who state their present needs taken care of. 60,000 tons remain to move but CAF do not want to move entire amount immediately as would deplete stocks now being used Shanghai.

Sent Department 2779, repeated Nanking 2085.

CABOT

893.24/12-2748

Memorandum by the Deputy Director of the Office of Far Eastern Affairs (Allison) to the Acting Secretary of State

[WASHINGTON,] December 27, 1948.

The attached draft OFLC⁷⁹ telegram⁸⁰ would approve a Chinese proposal that \$2 million of the Chinese Government's \$30 million

⁷⁹ Office of Foreign Liquidation Commissioner.

⁸⁰ Not printed.

surplus property shipping fund to be used to remove former U. S. surplus property from Tsingtao and Shanghai to Formosa and Canton. This fund was established by the U. S. in the name of the Chinese Government as a consideration under the bulk sale Surplus Property Agreement with China of August 30, 1946,⁸¹ and was to cover the cost of shipping to China and of technical services arising out of the property transfer. The fund has been held in trust for the Chinese Government by the U. S. and its use is being supervised by the OFLC. Any balance remaining in the fund after completion of surplus removals from the Pacific islands is to be turned over to the Chinese Government.

Although the proposed use of the fund for property movement within Chinese territory would deviate from the agreed purposes of the fund, it appears to be the most expeditious way of preventing valuable stocks from falling into the hands of the Chinese Communists. The stocks to be removed consist of large tonnages of vehicles, communications, maritime, industrial, and construction equipment, medical, clothing, and subsistence supplies; all in good condition. OFLC is satisfied that the fund is sufficient to finance these removals, and that they will not interfere with completion of Chinese operations on Pacific islands.

Mr. Butterworth⁸² and I agree that, under the circumstances, we should not let legal technicalities prevent Chinese use of their own resources for an operation of strategic importance to both the Chinese and the U. S. Governments. We recommend your approval of the telegram.⁸³

V. CHINESE REQUESTS FOR AVIATION GASOLINE; CONCERN OF THE UNITED STATES REGARDING EXCESSIVE OIL STOCKS IN SHANGHAI FALLING INTO CHINESE COMMUNIST HANDS

893.50 Recovery/7-1448: Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)

WASHINGTON, July 14, 1948—7 p. m.

1281. Chinese Embassy states contract was to have been signed Shanghai July 12 between Chi Govt, represented by China Petroleum Corporation, and three major oil companies (Standard-Vacuum, Texaco and Shell) covering Chi Govt purchase 5.5 million gallons 92 octane aviation gasoline and corresponding amounts lube oils.

⁸¹ Department of State, *Report to Congress on Foreign Surplus Disposal*, October, 1946, pp. 40-45.

⁸² W. Walton Butterworth, Director of the Office of Far Eastern Affairs.

⁸³ Marginal notation by the Acting Secretary of State: "OK. L[ovett]".

Total value purchase stated US\$3.7 million to be paid in three installments July and Aug 1948.

Chi Govt has informally requested withdrawal this amount from \$125 million grants authorized for "additional aid" under Section 404 (b) China Aid Act.⁸⁴ Presidential terms require Chi Govt submit supporting documents with each request for withdrawals these funds and Dept examine documentation submitted to determine request not in excess total represented by supporting documents. In view possible delay involved transmission signed contract from China to Washington, however, Chinese Emb has requested arrangement whereby Consulate General will examine signed contract presented by oil companies and telegraph Dept certifying its authenticity, thus enabling immediate payment Chi Emb here.

Chinese Emb informed this procedure acceptable on understanding certified copy original signed contract will be furnished Dept soon as possible thereafter. Chinese Emb notifying Chi Govt accordingly and asking oil companies present such contract to Consulate General for examination its authenticity.

You are requested examine contract submitted by oil companies to ascertain that listed materials, quantities and total purchase price correspond those described para 1 this tel. If contract contains differences, you should report particulars by telegram, including in full any provisions governing contract cancellation. Oil company representatives should furnish you two authenticated copies signed contract one of which should be retained your files for purposes record and other forwarded to Dept via air pouch. Upon receipt telegraphic notification from Consulate General foregoing procedure has been completed, Dept will take appropriate action authorize disbursement to Chi Emb here.

ECA⁸⁵ informed. Please inform Lapham.⁸⁶

MARSHALL

893.50 Recovery/7-1648 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 16, 1948—4 p. m.

[Received July 16—6:35 a. m.]

1600. ReDeptel 1281, July 14. Central Trust of China signed three contracts July 12 on behalf of Chinese Government for use of Chinese

⁸⁴ Approved April 3, 1948; 62 Stat. 158.

⁸⁵ Economic Cooperation Administration.

⁸⁶ Roger D. Lapham, Chief of the China Mission, Economic Cooperation Administration.

Air Force (job No. 9070) with following companies: China Petroleum Company, Ltd. (sole agents for China, Sterns, Inc., 150 Broadway, New York City), Standard-Vacuum Oil Company, Shanghai, and the Texas Company (China) Ltd. These are believed to be contracts referred to by Chinese Embassy as total value of purchase is practically same as that stated in Department's cable. China Petroleum Company contract calls for delivery 19,356,000 liters 100 octane avigas,⁸⁷ US dollar value 2,313,042. Standard-Vacuum contract calls for avigas, mogas, luboil, light diesel for delivery Shanghai and mogas, luboil, kerosene for delivery Canton. Total value Standard-Vacuum contract US \$436,204.43. Texas Company contract calls for avigas, mogas, luboil for delivery Shanghai and Tientsin, total value US \$951,997.07. Oil companies will furnish Consulate General authenticated copies of contracts by July 20. Shell manager informs Consulate General his company was not in position to bid on job 9070.

For Department's consideration Central Trust has not yet paid outstanding accounts due Standard-Vacuum, Texas and Shell on contract known as job No. 8100 signed November 4, 1947. Central Trust reports it has been unable secure necessary exchange from Central Bank and has been unable take delivery from oil companies although products have been in storage for some time. Contract 8100 was for account of Chinese Air Force, combined service forces and Chinese Navy. It is estimated amount outstanding due oil companies is in neighborhood of US \$1,000,000 plus some sterling. If Department is interested in detailed breakdown by companies, Consulate General can cable this information.

China Petroleum Co. Ltd. is small company which took over Sterns agency, formerly controlled by Carlowitz, large pre-war German firm. It is not yet confirmed but believe China Petroleum Company plans on using terminal facilities of Chinese Petroleum Corporation. World trade directory report on China Petroleum Company will be forwarded in next airmail pouch.⁸⁸

As of possible interest to Department all three contracts under job 9070 state seller agrees to allow buyer (Central Trust) 1 percent discount on prices set forth in contract, such discount to be computed in same currency in which payment is made buyer and to be deducted at time of payment. Lapham has copy this telegram.

Sent Department, pouched Nanking.

CABOT

⁸⁷ Aviation gasoline.

⁸⁸ Despatch No. 664, July 20, not printed.

893.50 Recovery/7-2448

*Memorandum of Conversation, by the Chief of the Division of
Chinese Affairs (Sprouse)*

[WASHINGTON,] July 24, 1948.

Dr. Wang⁸⁹ called at 11:30 a. m., July 23, by appointment to present the first Chinese requests for withdrawals from the \$125 million grants authorized under Section 404 (b) of the China Aid Act of 1948.

In looking over the requests and supporting documents, I pointed out that the Chinese Request No. 10003, dated July 22, 1948, covering petroleum products and containers in the amount of \$3,700,843.50 included the 1 percent discount which, in accordance with Section II (3) of each contract, the Seller "agrees to allow Buyer . . .⁹⁰ on the prices set forth herein, such discount to be computed in the same currency in which payment is made by Buyer and to be deducted at the time of payment." I informed Dr. Wang that the Consulate General at Shanghai had called this provision of the contract to the Department's attention as representing, in effect, a payment to a Chinese Government agency, Central Trust, for the signing of the contract on behalf of the Chinese Government. I suggested that the Chinese Embassy might wish to reconsider the advisability of including this amount in the request. I further pointed out that the Petroleum Division of the Department had indicated that the China Petroleum Company, Ltd., which had obtained the major share of the petroleum contracted for and represented in these requests, would probably have difficulty in securing approval of allocations for its share in view of the general policy of the Office of International Trade to make allocations to suppliers of the China market in accordance with their historical position in that market.

Dr. Wang said that he would discuss the question of the 1 percent discount with the Chinese Ambassador. With reference to the China Petroleum Company, Ltd., he said that it was still desirable that the request for payment be made and that in the event that allocations could not be granted to the Company, the amount paid could be credited against future Chinese requests for withdrawals.

(Dr. Wang telephoned to me about 30 minutes after his call at the Department and said that he had discussed the question of the discount with Ambassador Koo and that it had been decided to submit another request for payments for the petroleum products, which would not include a request for payment of 1 percent discount. The Chi-

⁸⁹ S. C. Wang, Counselor of the Chinese Embassy.

⁹⁰ Omission indicated in the original memorandum.

nese Embassy brought the substitute request to the Division of Chinese Affairs shortly after this telephone conversation.)

On July 24 Dr. Wang again called at the Department in connection with the question of allocations of petroleum supplies. He pointed out that the Chinese Embassy had received a message from Nanking indicating the urgent need of the Chinese Air Force for aviation gasoline and said that it was hoped that the Department could exert efforts to ensure that the necessary allocations were granted to cover the contracts for petroleum products submitted with the Chinese requests for withdrawals from the \$125 million grants on the previous day. I informed Dr. Wang that we had previously requested the Department of Commerce⁹¹ to take appropriate action to facilitate the granting of export licenses covering purchases made by the Chinese Government from the proceeds of the \$125 million grants and that the State Department would inform the Department of Commerce of these oil contracts. I pointed out that the Office of International Trade might, however, be unwilling to approve licenses for the amount covered by the contract with the China Petroleum Company, Ltd., in view of its general policy of making allocations in accordance with the historical position of suppliers of the China market. Dr. Wang emphasized the Chinese need of the aviation gas and again expressed the hope that action could be taken to expedite the approval of the necessary allocations.

893.50 Recovery/7-2648

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] July 26, 1948.

Participants: Mr. Pei Tsu-yee, Chief of the Chinese Technical Mission
Mr. Butterworth, Director for Far Eastern Affairs
Mr. McBride, PED⁹²
Mr. Sprouse, CA

Subject: Certain Aspects of Contracts for Petroleum Products Concluded by the Chinese Government on July 12, 1948 and Presented to the Department as a Basis for Withdrawals from the \$125 Million Grants under the China Aid Act.

Mr. Pei called this afternoon by appointment to discuss the above-described subject. He stated that, following his discussion of this matter with Mr. Butterworth on July 23, he had asked certain Chinese officials for clarification of various points which seemed to need ex-

⁹¹ Letter dated July 2, not printed.

⁹² John W. McBride, of the Petroleum Division.

planation. Some of the information needed would have to be obtained from China since it was not available in Washington.

Mr. Butterworth explained to Mr. Pei that the Chinese Embassy had withdrawn its request for payment under the \$125 million grants to cover the one percent discount to be paid under the contracts to the Central Trust and had substituted another request deleting this amount. He also explained that he and Mr. Sprouse had this morning discussed with Mr. Lovett the matter of the contract concluded between the China Petroleum Company, Limited, as agents in China for Sterns, Incorporated, and the problem of allocations to this Company. He pointed out that the general policy of the Office of International Trade of the Department of Commerce was to grant allocations in accordance with the historical position of suppliers in the various markets of the world and that for this reason the China Petroleum Company would have difficulty in obtaining approval of allocations necessary to enable it to meet its requirements from the United States under the contract. However, in view of the urgency of the needs of the Chinese Air Force for the aviation gasoline under this contract, the Department had decided that it would request the Department of Commerce to approve the necessary allocations under this contract. Mr. Butterworth emphasized that this action was being taken only because of the military emergency and that it should not be taken as a precedent for future contracts which the Chinese Government might conclude for petroleum products. He further suggested that the Chinese Government should bear this circumstance in mind when it placed further contracts for such items and concluded that it could not be assumed that the Department of Commerce would act favorably on this Department's request but that the Department of State wished to do what it could to assist the Chinese in obtaining approval of the necessary allocation.

Mr. Pei indicated his understanding of the circumstances and emphasized that even though the allocations should be approved the Chinese must clear up any phases of this transaction which appeared to be doubtful.

Mr. McBride then explained to Mr. Pei the status of previous Chinese quotas of petroleum products during 1948 and suggested that it would be helpful if the Chinese Government could furnish the Department data regarding its present holdings of petroleum products and the daily or monthly rate of consumption of the Chinese Air Force. He pointed out that the Department had not known of the Chinese shortage of aviation gasoline since the Chinese had not used its full quota of 160,000 barrels during the second quarter. Mr. Pei explained the Government's desire to conserve foreign exchange during that period and said that he would endeavor to see that the necessary data were obtained.

893.50 Recovery/8-348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 3, 1948—6 p. m.

1113. Dept advised Stanvac⁹³ and Caltex⁹⁴ currently moving approx 3 million gals avgas China which should relieve shortage. ASPB⁹⁵ indicates no Far East stocks available tankers or storage for diversion to China. Re problems indicated by AAG⁹⁶ (1) OIT⁹⁷ advises China export quota has not been exhausted. Dept recommending approval additional 7 million gals avgas for CAF,⁹⁸ (2) refineries entire production 100 octane gasoline apparently not allocated since Stanvac and Caltex have export applications on file OIT for large quantity for China, (3) Dept has approved contracts CAF job No. 9070 for payment. Commerce policy generally to grant export licenses on historical basis and problem may arise with regard Sterns, Inc. obtaining quantities specified in contracts. Furthermore, indicated contract cost \$3,700,000 for 7 million gals is more than double estimated bulk unit cost avgas. Dept understands this due largely proposed shipment drums rather than bulk which Chinese Govt justifies on basis drums reqd for CAF distribution within China.

Dept would appreciate receiving info which would explain critical need since (1) it has recd no indications critical supply situation was developing, (2) China fell 60,000 bbls short of using up its second quarter quota of 160,000 bbls.

MARSHALL

893.50 Recovery/8-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 13, 1948.

[Received August 13—9:10 a. m.]

1501. Investigation trade circles by Consulate General Shanghai indicates substantial stocks aviation gas held in Canton, Shanghai, Hong Kong and Tientsin by Shell, Caltex and Standard-Vacuum. CAF has not taken delivery by payment for parts of old contracts where stock is actually held in drums in China.

On other hand AAG confirms that Chinese at highest level have stated that there is a critical shortage aviation gas for CAF.

⁹³ Standard-Vacuum Oil Co.

⁹⁴ California Texas Oil Co.

⁹⁵ Armed Services Petroleum Board.

⁹⁶ Army Advisory Group.

⁹⁷ Office of International Trade.

⁹⁸ Chinese Air Force.

Answer foregoing anomaly presumably attributable to increasingly critical dollar exchange position Chinese Govt. Re Dept's 1113 of August 3. This would explain failure CAF payment against old commercial contracts and failure of China to import full second-quarter quota. It would likewise explain extreme pressure to rush through contract job No. 9070 for payment with "other aid" funds moment latter were available.

Delay in delivery on CAF job No. 9070 has resulted in CAF's successful persuasion of Central Bank to grant necessary dollar exchange to pay for 5600 drums (53 American gallons each) which was outstanding on old order with Caltex. Delivery will be made this week but this amount will carry CAF for only 3 or 4 days at present rate operations.

As of July 29 following stocks aviation gas stated in barrels of 42 American gallons held by oil companies: Shell 24,068 Shanghai, 32,064 Hong Kong; Texas 5,316 Shanghai, 3,200 Hong Kong; Standard-Vacuum 27,946 Shanghai, 17,362 Hong Kong, 5,034 Tientsin. These stocks would be available for release subject to issuance import licenses but most [*must?*] also care for civilian and international airlines. Further stocks aviation gasoline reported due to arrive within 2 weeks but delivery to CAF would depend on funds made available from "other aid".

Sent Dept 1501, repeated Shanghai 721.

STUART

893.50 Recovery/8-1348

The Secretary of State to the Secretary of Commerce (Sawyer)

WASHINGTON, August 19, 1948.

DEAR SAWYER: Lovett wrote to you on July 28, 1948⁹⁹ in regard to the allocations of aviation gasoline to the Chinese Government covered by contracts concluded at Shanghai on July 12. As stated in his letter, the State Department requested action to ensure that licenses were granted on the basis of the urgent military needs.

The reported existing stocks of aviation gasoline in China must meet both Chinese civilian and military requirements. A telegram from the American Embassy at Nanking, dated August 13, refers to existing stocks of aviation gasoline in China but also states that the United States Army Advisory Group confirms that the highest Chinese authorities assert that there is now a critical shortage of aviation gasoline for the Chinese Air Force. It would be unfortunate if we turned down a request reported to be of military urgency and later found the emergency actually proved to be of grave consequence.

⁹⁹ Not printed.

I would appreciate the approval of the allocations of aviation gasoline to the suppliers under these contracts at the earliest possible moment.

Faithfully yours,

G. C. MARSHALL

893.50 Recovery/8-2748

The Chinese Embassy to the Department of State

AIDE-MÉMOIRE

1. The Chinese Air Force has been in urgent need of more aviation gasoline. The Chinese Ambassador, under instructions from his Government, invited the attention of the Secretary of State to this fact in his interview with him on August 17th. Through the good offices of the State Department and other United States Departments, export licenses for a portion of the aviation gasoline contracted for on July 12th were granted last week. However, not only is the quantity thus made available in the near future exceedingly limited, but much of this limited quantity will have to be shipped to China, and it will take time to effect it. Besides, the existing stock scattered in China amounts to only 74,000 barrels, most of which is destined for Chinese and foreign commercial use and for that of the United States armed forces in China.

2. It has been estimated that the requirements of the Chinese Air Force to the end of the year add up to 20,000,000 gallons of 100 octane aviation gasoline. The application for the grant of the necessary quarterly export quota is being filed with the Commerce Department, but it will be much appreciated if the State Department would be good enough to use its good offices with the Commerce Department to expedite action.

3. In view of the urgency of the immediate needs of the Chinese Air Force and the inadequacy of the existing available stock in China to meet them, the Chinese Government desires to borrow 10,000,000 gallons of 100 octane aviation gasoline for its use from the stock of the United States armed forces under the control of the Supreme Commander for the Allied Powers in Japan. The gasoline thus furnished will be paid for by reimbursement from the funds made available to China under the China Aid Act of 1948, Section 404 (b), or be replaced from the new orders which the Chinese Government has requested the United States Department of the Air Force to procure on behalf of the Chinese Air Force, in pursuance of the procedure set forth in the Secretary of State's note to the Chinese Ambassador under date of July 30th, 1948.¹

¹ *Ante*, p. 126.

4. The Chinese Ambassador will be grateful if the Secretary of State would cause instructions to be sent to SCAP² in Tokyo to arrange the proposed loan of the needed amount of 100 octane aviation gasoline from the stock under his control. The Chinese Government will, on its part, shortly dispatch Lieutenant-Colonel Hsueh-chang Pan of the Chinese Air Force to Tokyo to discuss the details of this arrangement, which, it is earnestly hoped, will meet with the approval of the United States Government.

WASHINGTON, August 27, 1948.

893.50 Recovery/8-2748

The Secretary of State to the Secretary of Commerce (Sawyer)

WASHINGTON, September 14, 1948.

DEAR MR. SECRETARY: Reference is made to my letter of September 7, 1948³ concerning allocations of aviation gasoline to the Chinese Government for the use of the Chinese Air Force.

I now enclose a copy of an *aide-mémoire*, dated August 27, 1948 from the Chinese Embassy,⁴ in which the assistance of this Department is requested in connection with the Chinese application filed with the Department of Commerce for the grant of a quarterly export quota of aviation gasoline. It will be noted that the requirements of the Chinese Air Force are estimated in the *aide-mémoire* as 20,000,000 gallons of 100 octane gasoline to the end of the year.

In reply to the Department of State's inquiry in this regard, the Embassy at Nanking reported on September 3⁵ that the U. S. Army Advisory Group estimates the Chinese Air Force's current monthly rate of consumption of aviation gasoline at 2,500,000 gallons, an estimate based upon statements by the Chinese Air Force. In this connection, there is also enclosed a copy of a telegram of September 10 from the Embassy at Nanking⁶ giving further details with regard to the aviation gasoline requirements of the Chinese Air Force. This telegram points out that the U. S. Army Advisory Group has been greatly concerned over the situation although it is naturally not in a position to verify all the details of the stock position as described by the Chinese Air Force.

In the light of the foregoing, it would be appreciated if the Department of Commerce would take such action as may be appropriate and

² Supreme Commander, Allied Powers in Japan (MacArthur).

³ Not printed.

⁴ *Supra*.

⁵ Telegram No. 1622 not printed.

⁶ Telegram No. 1664 not printed.

feasible to ensure that the quota granted is adequate to enable the Chinese Air Force to fulfill its requirements.

Faithfully yours,

[G. C. MARSHALL]

893.50 Recovery/9-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 20, 1948—noon.

[Received September 20—12:42 a. m.]

1725. On September 19 Generalissimo⁷ sent me urgent secret request for my support in his efforts to secure aviation gas for Chinese Air Force (See Embtel 1664, September 10, repeated Shanghai 794, and ConGen telegram 2001, September 13,⁸ repeated Nanking 1545, and previous messages). According to Generalissimo, CAF planes face grounding almost any day until shipments on job 9070 arrive next month. His message stated that MacArthur was agreeable to loan 5,000,000 gallons of aviation gas from stocks in Japan but that approval of State Department was necessary for consummation this arrangement. Authority for statement of MacArthur approval was not given, nor was I aware of necessity for Department approval any such arrangement.

Even though exact status potentially available aviation gas stocks in China may not be entirely clear, fact that Generalissimo is personally so desperately anxious makes it important in my opinion that US Government do whatever may be possible to bridge gap until aviation gas contracted for arrives China. Accordingly, I urge Department to make every effort approve or facilitate loan from stocks in Japan or otherwise help Chinese meet this emergency.

Sent Department, repeated Shanghai 824.

STUART

893.50 Recovery/9-2048 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 23, 1948—2 p. m.

1353. Advised three major oil companies agreed pool avgas stocks China keep essential planes flying. Local reps oil companies believe stocks now China and en route adequate essential needs Oct and

⁷ Chiang Kai-shek, President of the Republic of China.

⁸ Neither printed.

into early Nov depending volume CAF actual requirements. (Ur 1725 Sep 20.)

Preliminary investigation reveals SCAP loan not favored. Air Force as alternative cooperative measure will loan CalTex tanker load avgas ready shipment US gulf Oct 11, arriving China month later. Contact companies and advise Dept if pooled stocks and anticipated receipts adequate meet essential needs Oct and part Nov.

Suggest Emb request air component advisory group maintain extraordinarily careful continuing check estimated monthly consumption CAF reporting any major variation from previous estimates to Dept.

Shipments West Coast complicated oil workers strike which cancelled departure CalTex tanker Sept 20.

Commerce has granted supplemental third quarter avgas quota 167,000 barrels, fourth qtr quota exceeding 200,000 bbls indicated. Dept continuing efforts expedite commercial shipments. Will keep Emb informed. Rpt Shanghai.

LOVETT

893.50 Recovery/9-2848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, September 28, 1948—7 p. m.

[Received September 28—5 : 11 a. m.]

2098. ReDeptel 1353 to Embassy, repeated Shanghai by Embassy September 23. If two American oil companies pool stocks aviation gas now in China they can supply commercial airlines which they are currently supplying until November 15 if no deliveries are made to CAF. In order to supply CAF and prevent possibility of requisitioning commercial airlines supplies, it is suggested that Air Force offer to loan CalTex tanker load of aviation gas ready for shipment US Gulf October 11 be accepted. Arrival of this tanker would not relieve critical supply position of CAF during October.

Is it possible for SCAP to make temporary loan to oil companies of approximately 8,000 tons aviation gas, which is amount CAF state they urgently require, to be replaced out of the October 11 shipment. If above suggestion feasible believe that arrangements would be facilitated by direct contact with head offices in New York.

Shell is programmed ahead to supply their share of commercial airlines for several months. Have had specific advice from London that additional supplies cannot be made available for CAF and if stocks are requisitioned they will not be able to supply commercial airlines.

Repeated Nanking 1599.

CABOT

893.50 Recovery/10-2548

The Secretary of the Air Force (Symington) to the Secretary of State

WASHINGTON, 25 October 1948.

DEAR MR. SECRETARY: In reply to your letter of 3 September 1948,* concerning the loan of 10,000,000 gallons or 238,000 barrels of aviation gasoline to the Chinese Air Force, negotiations have been in progress with members of your Department, Department of Commerce and the oil companies operating in China concerning this matter.

Because of the strike in West Coast refineries of the United States and the limited supplies of aviation gasoline available to the U. S. Air Force, we have been hesitant to make any commitment regarding U. S. Air Force stocks without first exhausting other possible means of supply.

The commercial oil companies, also seriously affected by this strike and a tight world-wide situation on aviation gasoline, have advised that only by pooling their stocks in China for use of all essential consumers can they render any immediate assistance. It is estimated that these stocks will be sufficient for consumption for the month of October, and perhaps the early part of November only, depending upon the firmness of the Chinese Air Force estimates of 59,500 barrels per month.

To augment this arrangement which the oil companies have agreed to, we are sending 130,000 barrels from Air Force contracts to Shanghai to arrive approximately 5 November 1948. In the interim, arrangements have been made with Commander-in-Chief, Far East, Tokyo, Japan, to ship 30,000 barrels of aviation gasoline from Japan to Tientsin, China, to arrive approximately 18 October 1948. This action should considerably relieve critical situation in North China.

The Chinese Air Force has been advised by separate communication of the above arrangements, and funds were requested and received through your Department from the Chinese to cover the costs of this project.

We are keeping apprised of the Chinese situation and will continue to render assistance insofar as possible.

Sincerely yours,

STUART SYMINGTON

893.6363/12-148: Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 8, 1948—6 p. m.

2139. Dept urgently needs current petroleum stock info Shanghai comparable data furnished Contel 1728, Aug. 4.⁹ Consideration

* Not printed.

problem Contel 2592, Dec. 1¹¹ also requires data current monthly consumption each product particularly fuel oil and lubes and estimated minimum stock level for possible transition period.

Dept position Shanghai retain present stocks but regulate future deliveries to achieve minimum safe level. Data outlined above essential discussions ECA and oil company representatives here.

LOVETT

893.6363/12-2448

*Memorandum of Conversation, by the Chief of the Petroleum Division
(Eakens)*

[WASHINGTON,] December 24, 1948.

In a meeting with Mr. Jones¹² this morning I told him that we had under consideration the question of petroleum stocks in the Shanghai area and whether they were not excessive in view of the uncertainties in China at the present time and the fact that Shanghai might fall to the Communists. I indicated that it is our general view, as well as that of our Consulate General in Shanghai, that petroleum stocks **should not** be higher than the minimum level necessary to ensure supplies for essential consumption requirements, and that tentatively we were considering whether a six-weeks' stock level for bulk products would not be sufficient for this purpose.

With respect to six-weeks' stock level Mr. Jones wanted to know whether, assuming Shell's stocks were considerably higher, it was our view that the excess amount of such stocks should be withdrawn. I replied that this was an aspect of the problem on which we had not reached any definite conclusion, that what we are thinking about mainly at this time is the adjustment of deliveries to bring the stock levels down. I mentioned that our figures indicate that present stock levels vary from two to four months on gasoline, gas oil, and diesel oil and that stock levels for residual fuel oil are about one month, for kerosene eight or ten months, and for lubricating oils and greases also about ten months.

We discussed the problem of maintaining low stock levels where each company individually was shipping in its own supplies and that the companies might utilize a borrow-and-loan for splitting up the cargo in each ship delivering oil supplies.

I told Mr. Jones that we considered that the maintenance of minimum stock levels was the sound position with respect to petroleum stocks irrespective of what conditions may turn out to be in the future, and that we hoped his Government would concur with us in this view and enlist the cooperation of Shell in attaining this objective. I also

¹¹ *Ante*, p. 270.

¹² E. E. Jones, Petroleum Attaché, British Embassy.

told Mr. Jones that we have discussed this matter with the American companies.

Mr. Jones said that he would take the matter up with his Government and let us have its views promptly.

893.6363/12-2748 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 30, 1948—6 p. m.

2282. ConGentel 2897 Dec 27 ¹³ helpful second oil co Conf Dec 28. Cos indicated willingness cooperate reduce bulk stocks approx 6-weeks level and luboils to 6 months. StanVac now transshipping some kerosene and cos appear willing consider withdrawing some luboils. Stated most other items near 6 weeks level which can be attained by deferring shipments.

Cos emphasize removal luboils not wholly effective unless license control applied U. S. exports, and consideration being given such measure. Cos also point out proposal released portion major co stocks for small importers China undesirable under present circumstances since conducive speculation and resale Soviet.

Dept emphasized discussion exploratory and that further consideration necessary before requests, if any, made Cos. Stanvac suggested preferable handle problem on present informal consultation basis and Dept concurs.

Dept discussed subject Dec 24 Brit Emb suggesting desirability cooperation and similar approach this problem but views Brit Govt not yet received. Suggest ConGen and Emb keep Brit ConGen and Emb informed developments emphasizing desirability cooperation.

LOVETT

VI. RUMORS OF PLANS TO ESTABLISH NEW AMERICAN VOLUNTEER AIR FORCE GROUP IN CHINA

893.796/4-1748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 17, 1948—3 p. m.

[Received April 17—5:39 a. m.]

700. Following telegram 133, April 15, sent Embassy from Consulate General Tsingtao and believed not sent Department:

¹³ Not printed.

"Remarks made by Willauer, Vice President of CAT,¹⁴ to CAT personnel during present visit here indicates that Chennault¹⁵ contemplating formation another American volunteer group but intends first to get at least tacit agreement of State Department to this move. Willauer also stated that CAT now authorized to expand to operation 100 planes as against present 18. Local CAT area manager has been authorized employ 10 additional air crews immediately. Manager states that policy at Marine Headquarters Washington was apparently changed recently to facilitate discharge at Tsingtao of Marine Aviation personnel who accept employment with CAT; officials are believed to consider that (under control American personnel) a relatively small, balanced force of fighters and bombers backed up by a sizeable transport force would be able effect major change in course civil war. Turner."¹⁶

Sent Department 700, repeated Shanghai 285.

STUART

893.796/4-1748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 22, 1948—3 p. m.

610. Dept uninformed regarding plans to establish another American volunteer group.

Navy states allegation by Tsingtao area manager regarding discharge of Marine Corps personnel without basis in fact (Embtel 700 Apr 17). It happens that Marine Corps Aviation personnel with rank of Master Sergeant are presently overstrength and several master sergeants recently discharged at Tsingtao and authorized to remain in China on understanding they had gainful employment and would not become public charge. This may be basis for manager's statement. Inform Tsingtao, and Shanghai.

LOVETT

893.796/5-2048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 25, 1948—2 p. m.

777. *Ta Kung Pao* report (Shanghai's 1112 May 20¹⁷) "that it is on suggestion of US authorities that Chennault is contemplating restoration of Flying Tigers in China" is without any basis in fact. EMB and or ConGen authorized to so state if questioned by press. (Sent Nanking as 777. Repeated Shanghai as 967).

Army, Navy, Air Force Depts concur.

MARSHALL

¹⁴ Civil Air Transport.

¹⁵ Maj. Gen. Claire Lee Chennault (ret.), Chairman of the Board of Civil Air Transport, Inc.

¹⁶ William T. Turner, Consul General at Tsingtao.

¹⁷ Not printed.

893.00/9-2348 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 14, 1948—6 p. m.

1447. Dept forwarded Tsingtao's 144, Sept. 23¹⁸ sent Nanking as 274 to Secretary Air Force for comment. He replied¹⁹ "no truth whatever" in statement first para Tsingtao telegram (ur 1767, Sept. 27²⁰).

LOVETT

893.248/11-1148 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, November 11, 1948—10 a. m.

[Received November 11—5:22 a. m.]

445. Consistent reports recently received particularly through American press representatives Peiping that sources close to CAT believe there will shortly be resurrected something similar to AVG commanded by Chennault early in Sino-Japanese war.

Assume from outward evidence there exists no plan for extending official blessing to any new American volunteer group. However, possible such group might be organized without American official approval, invite attention to possible serious consequences participation such American air group in Chinese civil [war] for Americans residing in areas which are now or might fall into Communist control. Therefore suggest if such group in process of formation appropriate steps be taken to end that such American residents be forewarned if possible.

Sent Dept 445, repeated Nanking 656.

CLUBB

893.248/11-1148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 15, 1948—9 p. m.

1627. Dept has no info re proposed formation AVG (Peiping's 445 Nov 11, repeated Nanking as 656; Deptel 1447 Oct 14 to Emb, repeated Tsingtao as 137).

¹⁸ Not printed; its first paragraph was as follows: "Willauer of CAT here yesterday returning shortly from Mukden. He informed local CAT manager 'new A[merican] V[olunteer] G[roup] not far off' as follow-up to conversation in which he told of interview he held in Washington with Air Force Secretary Symington."

¹⁹ Letter dated October 4 not printed.

²⁰ Not printed.

To enable Dept report to Secy,²¹ request Emb check whether any informal or personal encouragement has been given General Chennault this regard by any US official or officials.

Request Emb keep Dept informed developments.

LOVETT

893.248/11-1848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 18, 1948—3 p. m.

[Received November 19—12 : 51 a. m.]

2249. [To Shanghai:] Reference Peiping 445, November 11 to Department, repeated Shanghai our 1119, November 17. Embassy has no information to indicate just how far plans have gone to establish an organization out of CAT similar to AVG. Other evidence does suggest something of the sort being considered and plans may be fairly well advanced. Embassy shares Peiping's concern over consequences of such development to American citizens who may be residing in Communist held areas.

You are requested in your discretion to obtain confirmation from Chennault of these reports. If opportunity presents itself, you may also in your discretion point out to him considerations mentioned Peiping's 445 and at same time call his attention to USIS news file out of Washington carried in Radio Bulletin 269, November 15, Washington time, regarding US passport and protection difficulties of US citizens contemplating enlisting in military service abroad.

In Deptel 1627, November 15, Department replies it has no information regarding proposed formation AVG and asks us to check whether "any informal or personal encouragement has been given General Chennault this regard by any US official or officials". If you have any information or views on this point, please report.

Sent Shanghai 1123, repeated Peiping 235, Department 2249.

STUART

893.248/11-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 19, 1948—1 p. m.

[Received November 19—3 : 30 a. m.]

2263. ReDeptel 1627, November 15 and Embtel 2249 November 18, repeated Shanghai 1123. Shanghai papers November 18 carry New

²¹ The Secretary of State was in Paris on official mission.

York date line story received by telephone from Shanghai quoting Chennault as saying he has no plans to establish AVG and that he has not been approached on subject by Chinese Government,
Sent Department, repeated Shanghai 1132.

STUART

893.248/11-2448 : Telegram

The Consul General at Tsingtao (Turner) to the Secretary of State

TSINGTAO, November 24, 1948—11 a. m.

[Received 5:35 p. m.]

188. ReDeptel 1627, November 15 to Nanking, repeated Tsingtao as 162. ConGen informed voluntarily in confidence by Major General C. C. Liang of local Chinese Army headquarters that prior to Peiping news report of possible revival of American Volunteer Group he interviewed Chennault who evinced interest new AVG. On own responsibility Liang proceeded Peiping, obtained interview with Fu Tso-yi²² and arranged meeting with Fu for Rosbert and Burrridge of Civil Air Transport. Former is operations officer for CAT, latter north China manager. Fu reported very favorable toward AVG and promised urge Generalissimo²³ invite Chennault form AVG. Story broke in Peiping following reported visit Fu to Nanking.

Liang engaged in this intrigue in continuation his personal efforts prop up North China resistance to Communists. Approached Fu [in] view belief Fu's increasingly difficult situation North China; his prestige, and his more independent position would interest him in proposal and provide necessary important pressure for it. Relations between Burrridge and Liang very close for several months and former known strongly favor AVG.

Sent Department 188; repeated Nanking 348.

TURNER

893.248/11-2748 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, November 27, 1948.

[Received November 28—11:19 p. m.]

493. Communist Chinese language north Shensi broadcast November 26 contained following item:

"Notorious American aggressor against China, Chennault, dares plan organization volunteer air force to fight the Chinese people.

²² Commander in Chief of Bandit Suppression Forces in North China.

²³ Chiang Kai-shek, President of the Republic of China.

This plan has already been presented to Chiang Kai-shek and Fu Tso-yi. During period (existence) Chennault's air transport force (CAT) (INT) [*it has?*] already joined Kuomintang air force and, moreover, already gave effect to plan of slaughtering the people. This makes clear that American imperialistic government is just tolerating these actions of slaughtering Chinese people. The Chinese people and Chinese People's Liberation Army resolutely oppose [*propose?*] to end such actions."

Sent Department 493; repeated Nanking 735, Shanghai 487, and Tientsin.

CLUBB

893.796/11-2948

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] November 29, 1948.

There is attached a memorandum (Tab A) ²⁴ summarizing various reports which have been received by the Department with regard to the rumored plans of Major General Chennault to establish a new American Volunteer Group (AVG) in China. This information indicates that, despite the Department's denial that such plans were proceeding with official sanction and General Chennault's statement as reported in the press that he had no plans to reestablish the AVG, there is still considerable evidence that the project may be proceeding apace and that it would receive the full blessing of the Chinese Government.

The formation of an AVG at this time, with or without U. S. Government support or tacit approval, would have serious implications for our policy in China, the position of U. S. nationals there and our relations vis-à-vis the USSR. In the first place, such a volunteer group would in the eyes of the world constitute a form of direct U. S. involvement in China's civil war—a contingency which we have consistently and scrupulously avoided. Secondly, as pointed out by the Embassy at Nanking and the Consulate General in Peiping, the participation of such an American air group would have possible serious repercussions in the treatment accorded U. S. nationals residing in areas which are now or might fall under Chinese Communist control. Thirdly, the formation of such a group might constitute an open invitation for the USSR to back a "Soviet Volunteer Group" to operate in support of the Chinese Communists, thus making

²⁴ Not printed.

probable direct air combat between Soviet and U. S. nationals over Chinese territory. An indication that this last possibility has been considered (and apparently relished) by high Chinese officials was afforded in the statement on November 25 by Tao Hsi-sheng, Vice Minister of Information, that "If the 'Flying Tigers' should participate in the warfare, Soviet Russia may dispatch volunteer air force to China and another great war may break out when planes of these two countries meet in the air".

It would therefore appear that the formation at this time of an AVG in China would carry with it all the disadvantages of open American intervention in China's civil war and none of the possible advantages. For it is obvious that, while such a group could provide considerable annoyance for the Communists, it could not turn the tide in favor of the Nationalist forces.

893.796/11-2948

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to Brigadier General Marshall S. Carter*²⁵

[WASHINGTON,] December 4, 1948.

With reference to your query as to what the Department is doing to stop the formation of a revived AVG, the answer is that we are doing nothing at present. As the subject has never been broached either formally or informally to this Government, it would appear best to disregard rumors and press stories on the subject and thus by absence of favorable comment on the scheme imply official disapproval. It is extremely unlikely that General Chennault would attempt to take unilateral action in the matter without first obtaining at least the tacit consent of the Government, for without such consent he could not be assured of receiving continuing supplies and matériel for the operation.

On the other hand, should General Chennault either formally or informally approach the Government for support or consent in the establishment of an AVG, the Department should refuse to extend such support or consent and should take the position that the procedure which was established in a similar situation in Palestine should apply to China; that is, that American citizens participating in such a venture would forfeit American protection and be deprived of their passports.

²⁵ Special Assistant to the Secretary of State.

893.248/12-848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 8, 1948—7 p. m.

[Received December 8—7:42 a. m.]

2704. Embtel 1123, November 18²⁶ and other reports that General Chennault would reestablish AVG. General Chennault has informed member of ConGen staff that he had discussed reestablishment with Generalissimo. Latter pointed out that China did not have funds available for establishment of such a group and that if such a group were formed it would have to be at expense of US Government. CAF has planes and equipment probably available in sufficient quantities. Chennault volunteered that if the two governments were to get together on establishment of such a group he could within a fortnight inflict such extensive disruption as to halt Communist drive since practically all pilots now flying for CAT are ex-fighter pilots and over 100 ex-Fourteenth Air Force pilots have expressed willingness to serve. Chennault added that nothing concrete had been done here in connection with an AVG and that his actions in connection with reestablishment thereof had been confined to above-mentioned discussion with Generalissimo.

Sent Nanking 2024, repeated Department.

CABOT

**VII. MADAME CHIANG KAI-SHEK'S VISIT TO THE UNITED STATES TO
APPEAL FOR FURTHER IMMEDIATE MILITARY AID**

893.0011/11-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 24, 1948—midnight.

1702. Personal for Stuart. Madame Chiang²⁷ has just spoken to me by telephone. She plans immediate departure by air for temporary visit Washington. Several others in party. Notify me soonest complete info on party and itinerary so appropriate entrance arrangements can be made.

MARSHALL

²⁶ Sent to the Department as telegram No. 2249, p. 292.

²⁷ Wife of Generalissimo Chiang Kai-shek, President of the Republic of China.

893.0011/11-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 26, 1948—10 a. m.

[Received November 26—12: 08 a. m.]

2325. Personal [for] Secretary. Mme. Chiang sent for me immediately after talking to you. She did not ask my advice regarding trip and as much as I should have liked to do so I did not feel I could assume responsibility for endeavoring to dissuade her. It is obvious that she plans desperate plea for military aid, arguing United States responsibility for present situation because of Yalta²⁸ and because of our advocacy of "broadly based" Government.

Madame requested Admiral Badger²⁹ for plane and when he asked my advice I recommended refusal, but suggested he submit question Navy Department in order that responsibility for refusal could be placed on Washington rather than him.

I have asked for information on party and itinerary and will report when available.

STUART

893.0011/11-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 26, 1948—1 p. m.

[Received November 26—2: 38 a. m.]

2329. Personal for Lovett and Secretary. In reply your 1704, November 25,³⁰ see my 2325, November 26, to Secretary. The only inference I can draw from reports reaching me from hitherto dependable sources, is that Generalissimo is threatening to retire from active control if Hsueh battle goes against him and there has not been in interim assurance of greatly increased military aid from US and that Madame Chiang hopes through visit obtain assurances military aid requisite to forestall Generalissimo's retirement. Undoubtedly also an element in her desperate action is her desire to protect her family.

²⁸ Agreement signed by the heads of Government of the United States, United Kingdom, and Soviet Union, February 11, 1945; *Foreign Relations*, The Conferences at Malta and Yalta, 1945, p. 984.

²⁹ Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.

³⁰ Not printed.

As her mission would appear doomed in advance to failure, I should think it unwise for her to make trip. It is for that reason I have discouraged supplying her with transportation.

STUART

893.0011/11-2648 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 26, 1948—11 a. m.

1705. Personal for Stuart. Please inform Madame Chiang that in accordance with her telephone request to me and her subsequent request through Admiral Badger for transportation to the United States, arrangements have been made for Admiral Badger to furnish air transportation for Madame Chiang and party for temporary visit to the United States.

Our immigration people have been alerted that entry clearance should be given in the event passports and visas are not in order.

Advise me immediately of party and itinerary.

MARSHALL

893.00/12-248

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] December 2, 1948.

It is assumed that Madame Chiang will appeal for large-scale economic and military aid and for the appointment of a high-ranking U.S. officer as military adviser and of U.S. officers as advisers in operational areas and that she will describe China's fight as being also one for the United States and will charge U.S. responsibility for the Chinese Government's difficulties because of the Yalta decisions.

It is suggested, therefore, that it would be appropriate to make a statement to Madame Chiang along the following general lines:

The U.S. Government is sympathetic with the difficulties of the Chinese Government and recognizes the threat to China's independence from an insidious form of foreign imperialism exerted through international communism. U.S. interest and sympathy has been shown by its aid both during and since the war, the most recent instance being the present China aid program. However, the President made clear in his message transmitting the China aid bill in February 1948 ³¹ that this Government could only provide aid to en-

³¹ Message to Congress, February 18; Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), n. 981.

able the Chinese Government itself take those measures necessary to provide the framework within which peace and true economic recovery could be achieved, that the solution of China's problems was chiefly a Chinese responsibility and that U.S. aid could not, even in a small measure, be a substitute for action that could be taken only by the Chinese themselves. The U.S. Government is concerned over the recent serious turn of events. However, the pattern of these developments does not indicate that increased aid would in itself offer a solution. Nationalist defeats at Tsinan, Chinchow and Mukden were caused primarily by defection of troops to the Communists and in no case to a lack of munitions (Tab A for tabulation of losses).³² The will to fight has been lacking and this cannot be derived from foreign material aid.

As the President indicated in his letter of November 12 to the Generalissimo (Tabs B and C),³³ the U. S. is making every effort to expedite the implementation of the China aid program. There is no other legislative authority for such aid. The appointment of a high-ranking U. S. officer as military adviser would present great difficulties due to his lack of knowledge of the complexities of the situation and would also be misleading both to the Chinese and American people. General Barr,³⁴ in whom I have great confidence, is familiar with the current situation and his advice has always been available. To send U. S. military advisers into operational areas or have them command Chinese troops would represent a type of intervention in China's internal affairs contrary to the policy of this Government and to the intent of the Congress, which made its meaning clear on this point in its consideration of the China aid program.

With respect to Yalta, Soviet actions in Manchuria result from Soviet entry into the war and occupation of Manchuria and not from the Sino-Soviet Treaty.³⁵ There is no evidence that the Soviets would have withdrawn their troops from Manchuria any earlier or that they would have been any more correct in their relations with the Chinese Government had the Sino-Soviet Treaty of August 1945 not been signed. On the contrary, it is likely that the Soviets might have continued their occupation of Manchuria, as they have of Dairen, on the technical grounds of a state of war with Japan and Soviet forces might have advanced on into north China at the time of the Japanese surrender.

893.00/12-348

Memorandum of Conversation, by the Secretary of State

[Extracts]

[WASHINGTON,] December 3, 1948.

She³⁶ opened the meeting by stating that she came here primarily to see me. She accentuated the importance of my actions in connec-

³² Memorandum of December 2 concerning losses, p. 226.

³³ See telegram No. 1608, November 12, 7 p. m., to the Ambassador in China, p. 202.

³⁴ Maj. Gen. David G. Barr, Director, Joint U. S. Military Advisory Group in China.

³⁵ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10, p. 300.

³⁶ Madame Chiang Kai-shek.

tion with the future of China. Madame immediately outlined three steps that she felt were urgent and necessary.

a) A statement by our Government in opposition to the Communists in the Far East and in support of the Generalissimo's Government.

b) The importance of sending an outstanding American soldier to China to advise and be the "spark plug" of Chinese military effort, along with the participation of American officers in following through on the actions of the Chinese incompetent staff officers and commanders, particularly in relation to logistics.

(c) Economic assistance.

She talked at great length regarding the seriousness of the situation; denied the surrender of 33 divisions, said it was only 12; explained the ineffectiveness both of the military commanders now in power, with few exceptions, and most of the political leaders surrounding the Generalissimo in Nanking.

In connection with the last statement, she frankly outlined the provisional or preliminary plans of the Government for its transfer to Canton, which she felt would permit the shedding of the ineffective officials of the Government, the introduction of new blood, leaving the army to fight the battle along the Yangtze and create their new and well equipped force in the south. She also referred to Formosa and Hainan Islands in connection with the Kwan[g]tung region.

Madame stated that whoever we sent would receive the complete support of the Generalissimo. He assured her of this when she asked him this question. Also, that he would rid himself of the ineffective and incompetent plotters around him. . . .

Again and again Madame came back with the proposition that there must be an outstanding American soldier sent to China who could be the "spark plug" of whatever was done.

I explained to Madame why a statement at the present time was not advisable; that President Truman and I had discussed it and felt it was impossible to reconcile the facts of the case as we understood them and as we would desire to explain to the American public and a statement favorable to the Generalissimo's Government at this time; that the latter would have to be so watered down that it would do more harm than good. I told her that in the circumstances, despite the urgent necessity of informing the American public of the facts of the situation as we understood them, we, for the time being at least, were foregoing any statement rather than say something that would be destructive of the position of the Generalissimo.

I explained why it would be highly inadvisable for this Government to place its representative in the position that he would neces-

sarily become involved, particularly under present circumstances, and in any event without the controls that could not be established without virtually taking over the Chinese Government.

I explained my own experiences, as amplified by conversations with the Generalissimo to which she was a personal witness. I also explained the procedure here in which political manoeuvres of the Republicans as well as honest desires of certain lovers of China which had greatly confused the consideration of the matter last spring and early summer in the Congress. I also explained to her the inconsistency of the Republican action which had actually resulted in a reduction of what we had proposed for China and at the same time that they were advocating more aid to China. I explained the complications of expending the \$125,000,000 fund which was being devoted to military supplies.

As to economic matters, I told her that Mr. Hoffman³⁷ was going to China some time next week, en route from London where he was going on Monday, and that he and Mr. Lapham³⁸ could discuss the economic pros and cons with the principal officials in Nanking. I made clear that the economic problem was very largely in the hands of the ECA.

The discussion was very lengthy and covered several hours but the foregoing are the principal points involved, except that I said that our Ambassador there had instructions to support the Generalissimo's Government and that the rumors to the contrary had no foundation. In this connection, I told her of the numerous protests that are reaching here from prominent Chinese and Americans in China in regard to our continued support of the Generalissimo's Government, which they claim is doomed. I told her that I thought that the coming Congress would be favorably inclined to continue economic support along the lines of that proposed by President Truman last March, but I could not state this positively at this time.

I told Madame that if she cared to see me later after she had seen the President, I would be glad to talk to her and she left with that understanding.

Incidentally, Bullitt's³⁹ name was not mentioned by either one of us, which I thought was on her part rather significant.

Madame had seen me for about an hour yesterday afternoon, but she confined herself purely to personal matters and no Chinese problems were brought up.

G[EORGE] C. M[ARSHALL]

³⁷ Paul G. Hoffman, Administrator of the Economic Cooperation Administration.

³⁸ Roger D. Lapham, Chief of the ECA China Mission.

³⁹ William C. Bullitt, former Ambassador in the Soviet Union and France, at this time in China as a consultant to the Congressional Joint Committee on Foreign Economic Cooperation.

893.00/12-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 11, 1948—12 a. m.

[Received December 11—3 : 59 a. m.]

2501. British Ambassador ⁴⁰ told me December 10 that Vice Foreign Minister George Yeh had just told him that as result encouraging news received from Washington within previous 48 hours regarding military aid Chinese Government was "altering its plans". What plans or in what way they were being altered was not stated. I told my colleague I knew nothing to support such a statement and considered any such report from Washington to be ill-founded.

I appreciate that Madame and Ambassador Koo ⁴¹ may clutch at any straw and color their reports accordingly. I would appreciate Department informing me if there is any development which should alter the position which I have consistently expressed that any military or economic aid beyond that already authorized could not even be considered until Congress meets.

STUART

893.00/12-1148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 13, 1948—3 p. m.

1812. Urtel 2501 Dec 11. In conversations with Madame Chiang both President and Secretary have expressed sympathy with Chinese difficulties but have not given any indication of any change in US position and have made no commitments beyond implementation present China Aid Program.

For your info neither Amb Koo nor any other Chi official was present during Madame's conversation with President.

LOVETT

893.00/12-2748

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 27, 1948.

Madame called on me this morning to have a final conversation with me regarding the decisions of this Government in the matter of China.

⁴⁰ Sir Ralph Stevenson.⁴¹ V. K. Wellington Koo, Chinese Ambassador.

I first explained to Madame that she had been laboring under a confusion or misunderstanding regarding my position during the past three weeks; that I have not been officiating as Secretary of State and that I was not even aware of the various actions being taken by the Security Council, the Chiefs of Staff, the State Department, etc. I explained to her very carefully how matters were handled, including the fact that the President himself had called two meetings of the Security Council to consider the Chinese matter. I also took occasion to explain on the basis of your (Lovett's) explanation what had occurred in relation to the diversion of a ship of supplies to Okinawa.⁴² I made a fairly successful effort to convince her that she was laboring under a misunderstanding or disillusionment in thinking that a word from me would settle matters or that I was in a position to give such a word. I explained to her that her messages to Mrs. Marshall were third hand to me and fourth hand to the State Department and were inevitably confused and much was omitted.

I told Madame that it was the decision of the Government that the request of the Generalissimo that a distinguished officer be sent to the Chinese scene could not be approved. Regarding a statement by the Government on the question of Communism in China, I explained that the Generalissimo was free to quote from the President's message to him and also from the statements made last spring by the President and also by me. I stated that a check of the press conferences showed that in each case that the question had been asked about our policy toward China, it had been stated that our policy had not been changed and that we continued to support the same Government headed by the Generalissimo and mentioning him by name.

Madame explained that she had had a message from the Generalissimo this morning (it may have been last night) stating that the members of the Government were pressing him; that if there was to be no more American aid, he should make an accord with the Soviets, and that he had to make the decision immediately, today presumably; that he would resign in that event, but he had to be advised immediately.

I told Madame that such a message should be produced in writing so that we would know exactly what she said and could consider it accordingly. I suggested that she either dictate it to my secretary who was available at the hospital, or write it out herself and General Carter would call at her brother's residence and take it to the State Department where it could be considered.

She said she would do this and would telephone General Carter when she had the draft ready.

⁴² See memoranda of December 24 and 27, pp. 237 and 238, respectively.

I told her that when she made her statement she must make perfectly clear what she was talking about when she said immediate aid.

She requested that the sense of the Generalissimo's message be communicated to the President.

That ended the interview.

G[EORGE] C. M[ARSHALL]

893.00/12-2748

Memorandum by Brigadier General Marshall S. Carter to the Acting Secretary of State

[WASHINGTON,] December 27, 1948.

MR. LOVETT: At noon Secretary Marshall telephoned me to state that I could expect a phone call from Madame Chiang to come to her residence to pick up a note to be delivered to Mr. Lovett. General Marshall stressed the Madame's concern about security. The memorandum, according to General Marshall, was to be along the lines of that mentioned in his memorandum of conversation attached.⁴³

General Marshall also told me to tell you that Madame had said she had not talked to or seen General Chou since she had come to Washington and that therefore Chou was not aware of what Sprouse⁴⁴ was talking about.

Madame Chiang sent for me at one o'clock. She stated that she had been waiting almost four weeks for a decision from General Marshall; that the President and you had both made her think that General Marshall was the final word in the matter; that General Marshall today had told her he had not been in business for three weeks and was not familiar with all the actions that had been taken. She said General Marshall had stated that China would get more aid, but that it would have to be done by Congress. She said that would take a long time. I said yes, it probably would because Congress did not convene until January 3 and, as she knew, all such matters were time-consuming processes. She indicated great unhappiness at waiting so long for decisions. She asked me why we could not send a great military leader to China. She said General Marshall said the Government could not do it, but did not tell her why. I told her that I was not in the policy-making business, that I was purely a "leg man" and that I had no substantive knowledge of the problem, nor could I speak in any way of policy matters. She then asked me to arrange an immediate appointment with Mr. Lovett. I asked her if this was in lieu of the memorandum I was to take to Mr. Lovett. She appeared

⁴³ *Supra.*

⁴⁴ Philip D. Sprouse, Chief of the Division of Chinese Affairs.

reluctant to consider the idea of putting her problem in writing. However, she stated as I left that she would have a memorandum to hand Mr. Lovett.

She stressed several times the extreme urgency of the situation, stating that a decision had to be made today. At no time did she give me any idea of what the problem was.

M. S. CARTER

893.00/12-2748

Memorandum of Conversation, by the Acting Secretary of State

[WASHINGTON,] December 27, 1948.

Present: Mr. Lovett
Madame Chiang
General Carter

Madame Chiang called on me in the Secretary's office at 3 p. m. today at her request. She said that she had been waiting almost four weeks for decisions of this Government, under the impression that General Marshall had the final word. Her conversations with President Truman and me had seemed to corroborate this. She had seen General Marshall this morning at 11:30 and he had explained that he had not been officiating for three weeks and was not aware of current events either here or in China. She repeated her conversation with the General substantially along the lines of the attached memorandum⁴⁵ dictated by General Marshall after his interview. (Also see Carter's memorandum of subsequent events, also attached⁴⁶). She showed me the message she had received this morning from the Generalissimo (attached),⁴⁷ and went into some detail supporting the Generalissimo's position as explained in his cable.

I took occasion to explain to the Madame that under no conditions could the United States be placed in the position of deciding for the Generalissimo whether or not he would step aside, that this was a decision for the Generalissimo alone to make and was purely and simply a Chinese problem, that nothing we might say or do or not say or not do should have any bearing on the decision. I re-emphasized this point to make it quite clear to the Madame that we were not involved in any way in this particular problem.

A lengthy discussion ensued as to whether or not the President's letter to the Generalissimo would serve the purpose of a statement re-

⁴⁵ *Ante*, p. 302.

⁴⁶ *Supra*.

⁴⁷ Not printed.

quested by the Chinese. Madame quite obviously did not want this letter released, but said she would again query the Generalissimo on the matter. I explained to her the reasons why we could not appropriately issue a new statement at this time and explained that both the President and General Marshall have already made this clear to her.

She then handed me the three point paper attached,⁴⁸ stating that General Marshall had asked her to put in writing quite clearly exactly what she wanted. I answered the three requests by referring specifically to those portions of the President's message which answered them.

At the end of an hour and 20 minutes the Madame left with the following agreements:

1. She would get the Generalissimo's latest reaction to release, either here or in China, of the President's letter.
2. I would discuss with the President the advisability of releasing the letter here and again take up the question of a new statement.
3. I would discuss with the President once more Madame Chiang's urgent plea for a high ranking military adviser to go to China.

I furnished Madame a copy of the President's letter to the Generalissimo and directed General Carter to furnish her excerpts from press conferences of the last month.

R[OBERT] A. L[OVETT]

⁴⁸ Not printed. The three points in this paper were a request for a statement from the United States Government that it would give such moral and material support as was possible to China in its struggle against Communism; that a representative of high rank should go to China to assist in organizing and training the Chinese Army, and to coordinate American policy with the aid program in Europe; and that some way should be found to continue to supply military equipment until Congress should pass a resolution to continue aid to China.

STATUS OF UNITED STATES NAVAL AND MARINE FORCES AT TSINGTAO; QUESTION AS TO WITHDRAWAL

811.3393/12-2647

The Director of the Office of Far Eastern Affairs (Butterworth) to the Deputy Chief of Naval Operations (Sherman)

WASHINGTON, December 26, 1947.

MY DEAR ADMIRAL SHERMAN: Apropos of our conversation this morning, I list below the points on which we should appreciate receiving clarification:

1. The agreement or understanding, formal or informal, under which United States naval vessels are stationed at Tsingtao and call at or have been stationed at Shanghai, together with any pertinent dates.

2. The agreement or understanding under which the United States Navy maintains and operates shore establishments at Tsingtao and Shanghai.

3. The arrangement under which dock and other facilities have been made available to the United States Navy at Tsingtao and Shanghai and the proportion of the total dock facilities at Tsingtao now being used by the United States Navy.

With kind personal regards.

Faithfully yours,

W. WALTON BUTTERWORTH

811.3393/1-848

Rear Admiral C. W. Styer, of the Office of Chief of Naval Operations, to the Director of the Office of Far Eastern Affairs (Butterworth)

Ser: 004P35 (SC) A14-7/EF16 WASHINGTON, 8 January 1948.

MY DEAR MR. BUTTERWORTH: The following information is submitted in response to your letter of 26 December 1947, (Paragraph numbers correspond) :-

1. The Joint Chiefs of Staff in August 1945 charged the Commanding General, China, with responsibility for the coordination with the Generalissimo¹ of those parts of the occupation plans which per-

¹ Chiang Kai-shek, President of the National Government of the Republic of China.

tain to China. This task and other residual functions were assumed by the Commander Seventh Fleet ² on 1 May 1946. Upon inactivation of the China theater, U. S. Navy vessels entered Tsingtao and Shanghai on 16 September and Tangku on 30 September 1945. Thereafter the U. S. Navy controlled and operated harbor facilities. These functions were relinquished to the Chinese on 31 August 1947, at Shanghai and in the spring of 1947 at Tangku. The U. S. Navy still cooperates with and assists Chinese harbor authorities at Tsingtao. Vessels are now stationed at Shanghai and Tsingtao in support of or in connection with activities of U. S. Advisory Groups and Public Law 512.³ The Commander Naval Forces in the Western Pacific ⁴ considers he has the Generalissimo's personal concurrence in the use of Chinese ports and waters inasmuch as the Commander in Chief of the Chinese Navy has assured him that U. S. Naval vessels were free to go anywhere in China. No formal written agreement on stationing U. S. Naval vessels at China ports is known to exist. It is believed that the Chinese desire to avoid written agreements of this nature. Numerous subordinate agreements indicate that the present employment of U. S. vessels has the sanction of the highest Chinese authorities who are fully aware of our dispositions. Examples are agreements with Alien Property Administration, harbor authorities, Maritime Customs, and the Chinese Navy.

2. No blanket agreement exists covering maintenance of shore establishments in Tsingtao. The Navy maintains shore activities there in connection with CNTC ⁵ established at the request of the Generalissimo and to service fleet units in the area. Naval forces landed Tsingtao 11 October 1945, prior to the arrival of CNA,⁶ and occupied property as necessary. This property was relinquished as the scope of missions in China contracted and forces were reduced. Much of the property now occupied is covered by leases with Alien Property Administration or by lessor agencies. Some property is covered only by verbal agreement for use as long as required. Negotiations are underway to purchase, for naval purposes, some former alien property. The use of Tsangkou airfield is sanctioned indirectly by Chinese Air Force correspondence. Written agreement dated 12 December 1947 exists with the Chinese Navy for use of Tsingtao sea drome during 1948.

3. Pier and godown space in harbor area Tsingtao is assigned by agreement with local administration without written contract. The

² Adm. Charles M. Cooke, Jr.

³ Approved July 16, 1946; 60 Stat. 539.

⁴ Adm. Oscar C. Badger.

⁵ Chinese Naval Training Center.

⁶ Chinese National Army.

policy has been to release space as the Navy can consolidate, thus providing for increasing Chinese traffic. Full understanding exists locally on this matter. NYK ⁷ Wayside Wharf Shanghai was originally occupied in September 1945 for an indefinite period at no charge under written agreement with the Shanghai municipal government. Chinese Maritime Customs, present custodian, has granted short term renewals from time to time. Execution of long term lease has been recommended. Property includes covered storage, naval barracks, boat pool, and public works facilities. OSK ⁷ Yangtzepoo Wharf was surrendered 30 August 1947. Navy has verbal assurance of continued use of 13 berths now occupied which represent roughly one-third of the total available. It is planned to release two of these about 1 April 1948. The Navy assists the Chinese in repair of docks.

C. W. STYER

811.3393/3-2448

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] March 24, 1948.

Subject: ComNavWesPac's ⁸ Cable 220345Z of March 22, 1948 ⁹—Request that Company of Marines Be Assigned to ComNavWesPac For Protection of US Nationals in China

On March 23 I telephoned Captain B. L. Austin, CNO,¹⁰ in regard to this message and asked whether he could indicate to me Navy's reaction to ComNavWesPac's request. I stated that although I obviously was unable to speak for the Department it was my personal and informal view that we would prefer that the Marine complement in China waters not be increased at this time. Captain Austin replied that this problem was not within the jurisdiction of CNO but that he would inquire of the Pacific Section and inform me of its reaction to this message.

This morning Colonel Metz, CNO, telephoned me that the Navy Department was answering ComNavWesPac's message in the following sense: Whereas ComNavWesPac's suggestion might have considerable merit, Navy does not approve of the transfer to ComNavWesPac of a company of Marines from Guam or the West Coast of the United States. US Marines are stationed in Tsingtao for the pro-

⁷ Japanese shipping company.

⁸ Commander, U. S. Naval Forces, Western Pacific (Adm. Oscar C. Badger).

⁹ Not found in Department files.

¹⁰ Office of Chief of Naval Operations.

tection of American interests. If ComNavWesPac desires to implement its suggestion that a company of Marines be assigned for service afloat in vessels of its command it is authorized to draw on the Marine forces now at Tsingtao.

893.00/5-2448 : Telegram

The Commander of United States Naval Forces in the Western Pacific (Badger) to the Chief of Naval Operations (Denfeld) ¹¹

[TSINGTAO,] 3 May 1948.

030045Z. My considered opinion :

(a) Nationalists suffered major reverse in loss of Weihsien and loss, capture or dispersal of Nationalist forces, arms, munitions that important area of central Shantung. Gives freedom of action and wide choice objective to more than 100,000 armed and fairly well supplied Communist troops operating in area not hostile to them and reasonably available to general and ammunition replenishment through coastal points.

(b) Nationalists have shown progressive tendency to weaken rather than strengthen Tsingtao defenses and appear to depend largely on presence US Forces for security. Their forces on the perimeter of Tsingtao are now inadequate to resist attack of strength, intensity and persistence of one similar that against Weihsien. The mere Communist willingness to take losses more than 25% was demonstrated.

(c) US Naval and Marine Force present Tsingtao can delay or resist any probable attack against airfield or town proper few days provided decision to engage not delayed until close attack in numbers develops and provided Chinese authorities can prevent usual pattern of infiltration of leaders for dissident elements within city.

(d) Communists can afford to employ about 60,000 troops in attack against any objective Shantung Peninsula while retaining covering forces to fend off Nationalist interference from other directions. Further favored by lack of offensive spirit and general inertia of Nationalist forces.

Am watching developments to determine probable direction or objective next major Communist move. Tsingtao with important source of income, munitions and material stocks becomes one of 4 inviting objectives (others are Tsinan, Chefoo, Lini). Above developments and circumstances focus attention on course of action US Forces in case Tsingtao becomes Communist objective.

General courses of action :

(a) Assist Nationalist forces in defense of city and essential suburban facilities (airfield and water works).

¹¹ Copy transmitted to the Department by the Navy Department about May 6.

(b) Defend installations essential to US without other local participation.

(c) Prompt evacuation of US personnel and forces with covering action by US Forces only as necessary.

(d) Evacuation now US shore establishments and non-combatants, retaining US Forces afloat in this vicinity.

From this viewpoint: Course *a* most advisable but without formal understanding with Chinese Government right to defend may be questioned. Also if attack should develop this course action would probably require prompt reinforcement amounting to doubling Marine Force presently available. Course *b* utterly impractical from military standpoint and from political standpoint in view of increased animosity toward US demonstrated by recent Communist acts and propaganda in Shantung. Course *c* practicable but involves abandonment of Chinese Nationalist Forces after extended [period joint] occupation and at time of greatest need. In all fairness implications should be thoroughly understood in advance. Course *d* practical but not now essential or recommended. This course would constitute invitation of Communists to take Tsingtao.

At present time current plans Tsingtao conform in general to course *a* above because of recognized importance to US position and interests in China and Far East of continued presence Naval Forces Tsingtao. Furthermore recent election of General Li Tsung-jen as Vice President, with whom I have had extended conversations, portends greater emphasis on support Nationalist position in critical area Hopei, Shantung and North China as a whole.

This is advisory that situation may require reasonable air and ground reinforcement to carry out present plans but is not to be construed as immediate cause for concern pending further unfavorable developments.

893.00/5-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 7, 1948—9 a. m.

[Received May 7—7:13 a. m.]

822. For Butterworth from Clark.¹² You will be interested ComNavWesPac despatch 030045, May 2 [3], to CNO regarding possibility Communist attack on Tsingtao. See also my letter to you April 22.¹³ [Clark.]

STUART

¹² Lewis Clark, Minister-Counselor of Embassy.

¹³ Not printed.

893.00/5-2448 : Telegram

*The Chief of Naval Operations (Denfeld) to the Commander of the United States Naval Forces, Western Pacific (Badger)*¹⁴

[WASHINGTON,] 12 May 1948.

122227Z. Your 030045 and 100835.¹⁵ Whole problem of presence our forces in Tsingtao being forwarded to SecDefense¹⁶ recommending reference to SecState. Pending further instructions JCS¹⁷ approve your general course of action *a* if situation requires.

893.00/5-1348

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] May 13, 1948.

With the recent fall of Weihsien and indications that the Chinese Government is preparing to evacuate Chefoo, the question of the safety of Tsingtao has again come to the fore. We have been discussing this matter in this Office and George Kennan¹⁸ and I have had one or two conversations about it and he had a talk with General Gruenther.¹⁹

At the same time, Admiral Badger, ComNavWesPac, sent in the attached message dated May 3,²⁰ posing alternative courses of action, the first being "(a) Assist Nationalist forces in defense of city and essential suburban facilities (airfield and water works)." Upon receipt of this, I asked Admiral Wooldridge, Assistant Chief of Naval Operations, to come and have a talk. He began the conversation by reiterating the oral message that he had sent when his liaison officer brought over the telegram, namely, that an instruction was being sent to Admiral Badger telling him not to consider (a) as a feasible course of action since it would definitely involve United States forces in the civil war in China. We reviewed many aspects of the situation including the making of informal representations in Nanking with a view to obtaining a more adequate garrison of Nationalist army troops. A telegram in this sense is in course of preparation in CA. Admiral Wooldridge stated the Navy view that it was unlikely that the Communists would attack Tsingtao at this time. I expressed

¹⁴ Copy transmitted to the Department by the Navy Department on May 13.

¹⁵ Latter not printed.

¹⁶ James Forrestal.

¹⁷ Joint Chiefs of Staff.

¹⁸ Director of the Policy Planning Staff.

¹⁹ Maj. Gen. Alfred M. Gruenther, Director of the Joint Staff of the Joint Chiefs of Staff.

²⁰ *Ante*, p. 310.

agreement with this estimate but pointed out the desirability of taking into account the possible deterioration of the National Government's position throughout north China and the eventual untenability of our position in Tsingtao. Speaking personally, I raised the question of the desirability of beginning to take precautionary measures towards phasing out; that if it might be necessary to evacuate Tsingtao, it would be in our interest to act gradually rather than abruptly and dramatically, which would have adverse repercussions on the Chinese Government as well.

There is attached a message sent out by the Navy Department on May 12 to ComNavWesPac.²¹ Immediately upon its receipt this afternoon, I called Admiral Wooldridge and asked for an explanation. The long and short of which was as follows:

The message he drafted to Admiral Badger asking him to disregard contingency (a) never went out because it did not receive Army clearance, General Wedemeyer²² objecting. The matter was then considered by the Joint Chiefs of Staff which according to Wooldridge deferred to the views of General Wedemeyer and the telegram was drafted and despatched. Admiral Wooldridge made no bones of the fact that he personally disapproved of the action taken and the procedure followed.

I requested Admiral Wooldridge to ascertain at the earliest moment when the Secretary would be in receipt of Secretary Forrestal's communication, and he promised to give me this information early tomorrow morning. I then pointed out the seriousness of drastic orders of this kind going out to one of the most troubled spots in the world without any reference to the Secretary of State or the President; that if an incident occurred tonight, Admiral Badger would be acting on orders authorizing US armed forces to take military action in a foreign country without the Secretary of State's or the President's prior concurrence or knowledge; that these orders were not only important in themselves and in the effect which they would have in the American governmental group in China conveying as they did the sense of a reversal of US policy but also they created a procedural precedent of grave import.

It is recommended (1) that steps be taken with Secretary Forrestal or the President to have the instruction to ComNavWesPac countermanded pending your consideration of the contents of Secretary Forrestal's letter and of the Tsingtao situation, (2) that the whole question of our maintenance of armed forces in Tsingtao be considered forthwith by the National Security Council.

²¹ *Supra*.

²² Lt. Gen. Albert C. Wedemeyer, Director of Plans and Operations, General Staff, U. S. Army.

Executive Secretariat Files : NSC 11

*Memorandum by the Secretary of Defense (Forrestal) to the National Security Council*²³

WASHINGTON, 21 May 1948.

Subject: Action by U. S. Forces at Tsingtao in Defense of U. S. Lives and Property.

The purpose of this memorandum is to apprise you of the current situation in the Tsingtao area and of the implications of possible future developments there.

On 3 May 1948, the Commander, Naval Forces Western Pacific, (ComNavWesPac), informed the Chief of Naval Operations, (CNO), that the military situation of the Chinese Nationalist Government in the Tsingtao area had deteriorated to such an extent that, while it was not an immediate cause for concern, it did require consideration of what action U. S. forces there would have to take in the event that the Chinese Communist forces should attack Tsingtao. On 10 May, the Commander, Naval Forces Western Pacific, advised,²⁴ in response to a query from the Chief of Naval Operations, that as he had previously stated there was no immediate cause for alarm pending further developments, but he considered it important that the contingency be clear to all concerned and that reasonable readiness be maintained. Copies of the two dispatches setting forth this information are enclosed herewith (see Annexes "A"²⁵ and "B"²⁶ hereto).

An analysis of the military situation in the Shantung Province as of 5 May 1948, made by the Office of Naval Intelligence, (Annex "C"²⁶), substantiates this estimate that the situation at Tsingtao is not an immediate cause for concern, and further estimates that although the Communists have capability of attacking Tsingtao, it is not their present intention of doing so. A possibility nevertheless exists that the Communists may elect to attack Tsingtao.

Legally, the present employment of naval forces in China stems from the provisions of Public Law 512 of 16 July 1946 which, *inter alia*, authorizes the detail of Naval and Marine Corps personnel to assist the Republic of China in naval matters. This activity is consistent with the U. S. policy of furnishing military assistance to friendly nations, at the request of such nations, throughout the world.

The policy of our government to aid and support the Chinese Nationalist Government has recently been given additional confirmation

²³ Circulated by Rear Adm. Sidney W. Souers, Executive Secretary of the National Security Council, as NSC 11, May 24.

²⁴ Telegram No. 100835Z, not printed.

²⁵ Telegram No. 030045Z, May 3, from the Commander of U. S. Naval Forces in the Western Pacific to the Chief of Naval Operations, p. 310.

²⁶ Not printed.

in the Foreign Assistance Act of 1948 (Public Law 472) ²⁷ which extended financial aid to China.

The principal training activity of the Chinese navy was established at Tsingtao soon after the Japanese surrender. The harbor at Tsingtao not only offers the best natural features for the Chinese naval training establishment, but also is the most suitable Chinese harbor to serve as a harbor for U. S. naval forces in Chinese waters.

Current emergency plans provide for the withdrawal of U. S. forces from the Tsingtao area as necessary under pressure, redeploying such forces to a more tenable position further south in China, or withdrawing from China entirely should the situation so require.

My understanding is that pertinent U. S. policy is based on the consideration that the Chinese Nationalist Government is responsible for the protection of foreign lives and interests ashore in China and that intervention on the part of U. S. forces in internal Chinese strife is not to be undertaken. However, a major Communist attack against Tsingtao would generate emergency conditions there beyond the control of the Chinese Nationalist Government, thereby endangering essential U. S. installations, property, and the lives of U. S. citizens. Under such circumstances, measures necessary for the protection of U. S. lives and property would in fact be tantamount to concerted action by U. S. and Chinese Nationalist forces.

The Joint Chiefs of Staff have advised me of the situation outlined above, and they have informed the Commander, Naval Forces Western Pacific, that pending further instruction and if the situation requires it, his proposed general course of action *a*, which would result in such combined military action in an emergency, is approved.

The Commander, Naval Forces Western Pacific, in his dispatch of 10 May, states as his belief that the withdrawal of U. S. Forces from Tsingtao now or in the foreseeable future is certain to cause permanent damage to the U. S. position in the Orient and to the Nationalist situation affecting all of North China; and that he has discussed his views on this subject with the Ambassador, who concurs in general.

It is understood that the Secretary of State has previously requested the Navy Department to review the status of forces in China at six-month intervals. If any forces are to be maintained in Tsingtao, it does not appear practicable to reduce them below the present level of about 3600. The Joint Chiefs of Staff consider, and I agree, that the implications of complete U. S. withdrawal from the Tsingtao area, either with or without Communist pressure against the city, are such as to require review by the National Security Council as a matter of U. S. government policy with respect to China.

²⁷ Approved April 3, 1948; 62 Stat. 137.

Accordingly, I recommend that a study of this subject be undertaken by the National Security Council, with particular reference to whether or not United States interests can best be served by the retention of U. S. forces in Tsingtao or by their complete withdrawal.

JAMES FORRESTAL

893.00/5-2848

The Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, May 28, 1948.

DEAR MR. SECRETARY: I refer to the question of policy with regard to Tsingtao in the event of an attack by Chinese Communists on that city. This question was raised, you will recall, by Admiral Badger's message of May 3 and by the Joint Chiefs of Staff's instructions to him of May 12. You will also remember that I discussed this matter with you on May 14 and that we agreed that, as the issues involved were to a large degree political, this Department should have a voice in determining what directive Admiral Badger should follow in the event of a Communist assault on Tsingtao.

My views are as follows:

1. I note that in the four alternative courses of action which Admiral Badger places before the JCS, he concluded that course *b* is utterly impractical from a military and political point of view. I concur. The JCS directed Admiral Badger to follow course *a*. If Admiral Badger were to follow course *a*, I have no confidence, given the nature of Chinese military tradition and psychology, that course *a* would not quickly degenerate into course *b*, thus placing us in an intolerable military and political position.

2. Fundamental in our approach to the problem of Tsingtao is the concept that basic responsibility for the defense of that area rests with the Chinese Government.

3. Therefore I suggest that, accompanied by Minister-Counselor Clark and General Barr,²⁸ Admiral Badger should immediately seek an interview with the Generalissimo. He should give the Generalissimo his estimate of the situation in the Tsingtao area and express his conviction that Tsingtao and its environs are now inadequately defended. Admiral Badger should ask the Generalissimo whether he intends to hold Tsingtao. If the Generalissimo does not, the Admiral's future course should be clear and he should immediately institute an orderly withdrawal. If the Generalissimo does intend to defend the Tsingtao area, Admiral Badger should state that it will then be essential for the Generalissimo promptly to reinforce his garrison with troops to the extent necessary to insure Tsingtao's safety. If you and the JCS agree, the Admiral might add that the Generalissimo would not find him unwilling to offer assistance in terms of mili-

²⁸ Maj. Gen. David G. Barr, Chief, Army Advisory Group (AAG) in China.

tary supplies to the extent practicable. In closing, Admiral Badger should request the Generalissimo to make it unmistakably clear to his Commanding Officer at Tsingtao that that officer has the sole responsibility for the defense of the Tsingtao area.

4. On his return to Tsingtao, Admiral Badger should personally inform the Commanding Officer that the defense of the Tsingtao area is the sole responsibility of the Chinese forces stationed there.

5. If at any time the Communist forces advance on Tsingtao in such a manner that, in Admiral Badger's judgment, they intend to attack in force, the Admiral should proceed in an orderly manner to evacuate dependents and withdraw from exposed positions, such as the airfield and the ammunition dump. He should avoid participation in hostilities between the Nationalist and Communist forces. If it becomes evident that the Nationalist forces are unable to discharge successfully their responsibility for the defense of the Tsingtao area, all American personnel should be withdrawn. It should be Admiral Badger's responsibility to have available sufficient ships for such an emergency evacuation. He should continue to be firm and vigilant in the protection of American lives, and any active military operations which might have to be resorted to should be limited to the fulfillment of this responsibility.

6. With the foregoing in mind, Admiral Badger may wish to reexamine the desirability of reducing the number of dependents in the Tsingtao area.

I suggest that the JCS replace its instructions of May 12 with an appropriate directive to Admiral Badger along the lines of the preceding numbered paragraphs. This directive should serve as interim orders pending formulation of policy on this question by the NSC.

Faithfully yours,

For the Secretary of State:
ROBERT A. LOVETT

893.00/6-748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 8, 1948—1 p. m.

854. For Emb background info only, following is abridgment of Dept's views (Embtel 1017 June 7, noon ²⁹) on defense of Tsingtao as set forth in letter of May 28 to SecDef:

[Here follows abridgement of letter printed *supra*.]

Also for background info of Emb there follows paraphrase of despatch 042245 of June 4 from CNO to ComNavWesPac:

In view recent developments incident to consideration by State, SecDef and JCS of over-all problem of presence of American forces in China, CNO desires that you do not engage in any advanced combined planning or make any advanced commitments to Chinese to

²⁹ Not printed.

carry out course *a* in an emergency without previous authorization of CNO. If any plans or commitments have already been made with Chinese, please advise their nature and extent. This does not restrict emergency action when there is no available time to communicate. End of paraphrase.

MARSHALL

893.00/6-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 11, 1948—6 p. m.

[Received June 11—10 : 21 a. m.]

1070. We are not of course competent to comment on military considerations involved in Tsingtao situation, Deptel 854, June 8. From political point of view, however, abandonment Tsingtao at this stage would, we believe, be concrete evidence to all interested that we are unwilling to run any risks in supporting those in China who are resisting communism, with the result that we will hasten, if not precipitate, the fall of Chiang Kai-shek and the disintegration of the present Government. A very considerable element in stiffening Generalissimo's will to continue fighting and in assisting him to regain his dwindling prestige will be his ability to convince his enemies of the extent to which he can count on American support.

Present anti-American demonstrations are but a manifestation of rapidly increasing feeling hopelessness and seeking in traditional Chinese pattern to find someone else upon whom to place the blame. Attack is in reality as much against Government as against our policy in Japan and is sympathetic [*symptomatic?*] widespread frustration. Generalissimo loses prestige as each day passes without effective leadership and he is subjected to increasing pressure from those who oppose continued Sino-American cooperation. This element, which is constantly increasing in strength, seeks end to civil war at almost any price and would welcome almost any accommodation with the Communists in the despairing hope that some way will be found other than civil war effectively to counter Communist propaganda and to establish in the country traditional Chinese way of life. Should we abandon Tsingtao such action would encourage these elements and with equal force would discourage Generalissimo, possibly lead to his removal from the scene, and increase possibility of coalition in some form between Nationalists and Communists, with a resulting upsurge of regionalism and particularism which would make eventual Communist domination of all China more easy.

If our overall strategic position is such that we cannot run risks suggested by Admiral Badger at Tsingtao, we feel we should make the decision with clear understanding of political implications of such action in the China scene.

STUART

893.00/6-1748

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 17 June 1948.

DEAR MR. SECRETARY: Your letter of 28 May 1948 recommending an interim policy with respect to action by U. S. Forces at Tsingtao pending formulation of permanent policy on this question by the National Security Council, has been given careful consideration by me and the Joint Chiefs of Staff.

In view of the determination by the Department of State that the basic responsibility for the defense of the Tsingtao area rests with the Chinese Government, and in view of the probability in the event of strong Communist attack, as pointed out in your letter, that course of action A (assisting Nationalist forces in defense of the city and essential suburban facilities) would degenerate into course B (defending installations essential to the United States without other local participation), an impractical course from both the military and political viewpoints, the Joint Chiefs of Staff have dispatched, with my approval, new instructions to the Commander, Naval Forces Western Pacific, a copy of which is enclosed.

As will be seen, the new instructions require that, pending further instructions, course of action A not be followed and that, if the situation requires, U. S. personnel and forces (and other nationals as appropriate and practicable) be evacuated, with action by United States forces limited to covering action as necessary (course of action C). Certain details regarding the manner of accomplishment of this course of action, suggested in the Secretary of State's view number five, are not included in the new instructions since the Joint Chiefs of Staff believe that they might unduly hamper Vice Admiral Badger's freedom of military decision and action.

The Joint Chiefs of Staff and I believe that an interview with the Generalissimo might better be postponed until after the National Security Council's current study has been completed and that the interview's terms should then be consistent with the conclusions reached and approved in that study. Subject to this proviso, we are in agreement with the general desirability of interviewing the Generalissimo regarding Tsingtao and making the situation entirely clear

to him. We are of the further opinion, however, that since the Tsingtao problem has direct bearing on United States policy with respect to China as a whole and since the interview with the Generalissimo proposed by the Secretary of State would thus have major political implications and would be on the highest Chinese governmental level, such interview should be undertaken by the Ambassador rather than by Vice Admiral Badger. We also believe it would be inadvisable for an offer of assistance in terms of military supplies for the Chinese Tsingtao garrison to be made in connection with the proposed interview. The question of military supplies bears on United States policy with respect to China in general and may be expected to be covered in the National Security Council study. In any case we think the terms and extent of such assistance should be separately handled and determined without prior commitment in the course of the impending interview.

The Joint Chiefs of Staff and I do not agree with the view that Vice Admiral Badger should immediately and automatically institute an orderly withdrawal if the Generalissimo states that he does not intend to hold Tsingtao. It is still true that the Tsingtao situation gives no immediate cause for alarm, so that current determination of the optimum course is on a contingency, rather than an emergency, basis. Short of further and more unfavorable developments in the Tsingtao area it would, therefore, be premature from the military viewpoint to institute withdrawal, without further consideration and decision on the highest levels, in case the Generalissimo should state that he does not intend to hold Tsingtao. It would also anticipate such conclusions as may finally be reached as a result of the study now being made by the National Security Council. Pending completion and approval of this study, the new directive for the Commander, Naval Forces Western Pacific, in the enclosure is considered adequate as an interim policy.

Sincerely yours,

JAMES FORRESTAL

[Enclosure]

Message for the Commander, United States Naval Forces, Western Pacific (Badger)

[83805]

[WASHINGTON, June 14, 1948.]

In view of reaffirmation by Department of State that basic responsibility for defense of Tsingtao area must continue to rest with Chinese Government, and in view of probability that in event of strong Communist attack course of action (A) would degenerate into course (B),

an impractical course from both the military and political viewpoints, the previous authority to pursue course (A) if situation requires, as contained in CNO 122227Z May, is hereby rescinded. In lieu thereof, and pending further instructions, Joint Chiefs of Staff direct you, if situation requires, to pursue course of action (C), plus evacuation of other Nationals as appropriate and practicable.

Your 030045Z May refers.

811.3393/9-2448

*The Consul General at Tsingtao (Turner) to the Ambassador in China (Stuart)*³⁰

No. 84

TSINGTAO, September 24, 1948.

SIR: I have the honor to transmit a memorandum³¹ prepared by Consul Robert C. Strong of this office in which a survey is made of the situation which will ensue after the fall of Tsinan—assuming that the city does fall—with special reference to the position of the United States Naval Forces at Tsingtao.

There seems to be generally a lack of appreciation of the significance of the battle for Tsinan just as there was an earlier failure to understand the grave effect on the Nationalist position in North China of the fall of Weih sien. There also seems to be some lack of comprehension of the serious effect which the fall of Tsinan will have on the position of the United States Naval Forces based at Tsingtao. This lack of appreciation is, however, not shared by Vice Admiral Badger, who is intensely concerned over the deteriorating position of the National Government in North China and who has been heard to declare, significantly, that the fall of Tsinan would be the signal for him to withdraw U. S. Navy and Marine dependents from Tsingtao.

A glance at the map will indicate the importance of Tsinan to both Nationalist and Communist. The city is the capital of one of the most strategically located provinces in China, commanding the overland routes from North China to the Yangtze and the center of a rich agricultural area. It has been obvious for some time that the Communists had marked the city for conquest, and the delay in the assault has probably been due to the appreciation of Communist leaders of the great importance of the city and to disinclination to commence the attack until preparations for its capture were completed. The assault on the city appears to have been timed to bring about its fall simultaneously with the fall of Changchun in Manchuria and Taiyuan in Shansi. It may be imagined what effect the fall of these three im-

³⁰ Copy transmitted to the Department by the Consul General without covering despatch; received October 13.

³¹ Not printed.

portant cities will have on the fortunes of the Nationalist cause and on public opinion in China and abroad.

With the fall of Tsinan into the hands of the Communists, Tsingtao will become more than ever a small and isolated island of Nationalist control within a sea of Communist territory. The last buffer of Nationalist control to the westward will have disappeared and the Communists can range more or less at will from the outskirts of Tsingtao westward to the thinly-held Nationalist areas of Shensi. There will be nothing to prevent the massing of overwhelming Communist forces in Eastern Shantung for an assault on Tsingtao at such time as their strategic schedule or instructions from Moscow may dictate.

The position of the United States Naval Base at Tsingtao, in this situation, is precarious indeed. The Marine Forces ashore number less than 4,000 effective troops and their air support is limited to about 16 fighter planes. Of course there is a powerful Naval squadron based at this port which could quickly be reinforced by units from elsewhere. However, it is extremely doubtful that the Administration in Washington would support armed intervention of any sort, even to the extent of defending American military installations ashore, if the city were to be attacked by the Communists. In such event, the alternatives confronting the U. S. Navy would be either to abandon the city at the first threat of attack, or to remain here in the hope that their presence would be tolerated by the Communists in the same way as by the National Government. The latter alternative seems most untenable, in view of the known hostility of the Communists to Americans and the almost certainty of an armed clash. The situation is indeed a serious one and should be faced squarely at the present time before events render necessary a hasty and perhaps emergency decision.

The enclosed memorandum by Mr. Strong sums up in greater detail the situation mentioned above. The arguments set forth therein do not purport to represent either his or my views as to the advisable courses of action. However, it will serve to outline the considerations that should now engage the closest attention of those concerned with American policy in this part of the world.

Respectfully yours,

WILLIAM T. TURNER

811.3393/10-148

*The Consul General at Tsingtao (Turner) to the Minister-Counselor
of Embassy in China (Clark)* ³²

TSINGTAO, September 29, 1948.

DEAR LEWIS: Having done a bit of reflecting on the significance of the fall of Tsinan, and having had a long talk with Admiral Badger

³² Copy transmitted to the Chief of the Division of Chinese Affairs (Sprouse) by the Consul General in his covering letter of October 1; received October 12.

this morning on the subject of the position that the U. S. Navy now finds itself placed in at Tsingtao, I am impelled to speak my piece for the record and for whatever my views are worth.

The journalist, Berrigan by name, whose recent article in the *Saturday Evening Post* described the U. S. Navy as being trapped in Tsingtao, was not far wrong in my opinion. The simple facts of the situation, which are so plain that they seem to be generally overlooked, are as follows:

The United States Navy and Marines moved into Tsingtao soon after VJ Day, coincidentally with similar actions by United States forces throughout the Far East. They were operating on wartime directives which allowed them wide scope. From other parts of China they have withdrawn; in Tsingtao they still remain, partly because of an old tradition of a U. S. Navy summer training establishment in North China, partly because the die-hards in the Navy hate to give up their hold on this strategic harbor.

These are the real reasons for the Navy's presence in Tsingtao. But ask any naval officer why the Navy stays on here and you will get a specious or a confused answer. Even Admiral Badger has admitted to me that he is not certain why the Navy is here, and that if he had been originally consulted the Navy would not be here. Of course, he adds that now that the Navy is here he perceives no way of leaving.

As regards the official mission of the Navy in Tsingtao, I have never been able to get a clear explanation, although I tried both while I was at the Embassy and since my arrival here. Ask ranking naval officers and they will tell you that their primary mission is to support the U. S. Navy Advisory Group and to give protection to American citizens in North China. They will also admit that their mission is to counter Soviet strength in Dairen and to serve as a stabilizing influence in the Chinese civil war—whatever that may mean. I repeat that no one, most of all the Navy people here on the spot, seems to have any clear idea of why they are here.

This situation did no great harm as long as the Chinese Government had generally recognized authority in this area and offered no objection to the Navy's presence here. However, the rule of the Nanking Government in this area may be said to have vanished, with the exception of the tiny perimeter around Tsingtao. The people now seizing control, whether we like them or not, are Communists who are bitterly hostile to America and the American Navy, and we may confidently assume that they are not going to adopt the same complacent attitude towards a foreign force on their soil.

We have thus drifted into a position where if we do not take action to resolve our dilemma the Communists will probably do so for us.

This rich city of Tsingtao can be had for the taking by the Communists. Everyone admits that the Chinese forces guarding the city would be a pushover for the veteran armies of Chen Yi. The talk of reinforcing the local garrison is eye-wash—why should Nanking expend its dwindling power on an isolated outpost of little importance in the great struggle? The small force of American Marines is not much more than a moral deterrent in the way of the Communists, and if the latter were aware of Washington's recent decree about their refraining from military action, the Communists would probably move in overnight.

So here we have an impossible situation: a military force on foreign soil whose instructions are not to fight but who may soon be forced either to fight in self-defense or to tuck tail and run. Six months ago or even six weeks ago it would have been possible for the Navy to retire from this situation without the loss of too much face. Now that Tsinan has fallen and the shadow of the victorious Communists falls across Eastern Shantung, it becomes more and more difficult for the Navy to extricate itself without serious loss of prestige for itself and for the United States. But the longer we wait the more difficult the problem will be—until perhaps the Communists march into the city and decide the answer for us. If the Marines are still here at that time I do not see how it will be possible to avoid a clash with a hostile army flushed with victory. Once a fight starts, the Marines will not withdraw, and we will be confronted by a first class battle. No matter who wins this battle it will have tremendous repercussions throughout China and probably throughout the world. If Chinese soldiers on Chinese soil are killed by foreign troops, the reaction of all Chinese will be much the same regardless of their politics. Furthermore, the reaction of the rest of the world will be much the same as that of the Chinese.

Now these are the simple thoughts of a simple fellow. Sometimes I think it is the smart fellows who get us into trouble and who are too subtle to recognize a plain fact when they see it. Furthermore, my prescription for this situation is also simple: get these Navy and Marine Forces out of here as fast as possible; cut the losses and forget about the matter of face; withdraw our lines to Japan, and thereby improve our strategic as well as our political position.

With this off my chest I will set about preparing this office for "going behind the iron curtain" which the Department blandly prescribes for us but gives us neither direct instructions nor advice.

Sincerely yours,

WILLIAM T. TURNER

893.00/10-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 8, 1948—3 p. m.

[Received October 8—10:32 a. m.]

1871. Since fall of Tsinan we have reviewed military situation (Embtel 1807, September 30³³) and have reconsidered from political point of view position of naval forces based Tsingtao. We know problem has previously been subject of JCS recommendation and we submit following in event JCS should reconsider in light of changed situation Shantung.

Communists now have clear-cut capability concentrating forces before Tsingtao defenses which would vastly outnumber any garrison Government could build up there. While it is by no means certain that Communists will embark on such course of action fact remains they can do so if they desire. In this situation there appear from the purely political point of view three possible courses of action for ComNavWesPac:

(1) Considering Communist capability to take Tsingtao in absence our active intervention, he could withdraw immediately or he could evacuate dependents and withdraw at first sign of major Communist concentration in area. Such action, we believe, would be disastrous in effect on morale of Chinese Government and its armed forces and would be taken by world at large as evidence our belief situation North China hopeless and as consequence we are withdrawing. One of principal elements contributing to what remains of stability in political, economic and military situation is conviction among Chinese that greater American military and other aid will be forthcoming one of these days. Abandonment Tsingtao would destroy that hope and hasten disintegration Nationalist Government. Also plans for emergency evacuation of Americans from North China would have to be completely revised.

(2) He could evacuate dependents, strengthen his forces and generally let it be known that he was prepared defend Tsingtao against Communist attack. This would be a calculated risk yet one where we feel strong chance is Communists would not test sincerity his position. Such position could not be taken without authorization to ComNavWesPac to fight if necessary. US naval forces are in Tsingtao with the consent of the recognized Government of China. It could be argued that if territory of Nationalist Government with whom we maintain unusually close and friendly relations is attacked by rebels or pirates without international standing our navy would be justified in defending its own personnel and installation alongside troops of host Government. From political point of view, however, we believe risk of finding ourselves thus actively participating in the civil war is one we would not be warranted in assuming at this stage. Also killing of Chinese, albeit Communist Chinese, by American Armed

³³ Vol. VII, p. 477.

Forces would, regardless of circumstances, be bitterly resented by Chinese of all political persuasions and might do irreparable damage to our prestige in China.

(3) He might evacuate dependents and put afloat all supplies and stores possible reducing personnel remaining ashore to that minimum necessary to maintain installations and await possible Communist attack on Tsingtao. Should Communists show clear intentions attack he could announce publicly his neutrality and fact that he would take no part in defense of port but express his intention remain Tsingtao to protect American life, property and naval installations which would be clearly designated by US flag. Such move would have advantage from political point of view, we believe, that should Communists refuse recognize his position and disregard American character of his installations by attacking them, responsibility for starting the show would rest on Communists rather than ComNavWesPac. If, during withdrawal under these conditions, some Chinese Communist casualties result repercussions would likely be less than under conditions envisaged in (1) above. Should the Communists on the other hand, as seems not entirely impossible in view their recent change in tactics in other newly acquired territories, recognize his position and respect his installations he could at least withdraw later should they so demand without too great loss of prestige and he might be allowed to remain. In the meantime the serious repercussions which would result from immediate withdrawal would be avoided.

The considerations set forth above are, of course, mainly political in character; choice of courses of action may in long run be determined by worldwide strategic and military factors of which we are unaware. For this reason we hesitate to recommend any of the three courses. Each seems unattractive yet we incline toward the third as being least objectionable of alternatives. In any event it looks very much as though whatever decision is reached will have to be implemented in the near future.

As Ambassador is in north, above represents the thinking of senior staff only.

Sent Department 1871, repeated Tsingtao 150. Repeated ComNavWesPac via Consulate General Tsingtao.

STUART

811.3393/10-1248

*The Acting Secretary of State to Rear Admiral Sidney W. Souers,
Executive Secretary to the National Security Council*

WASHINGTON, October 14, 1948.

MY DEAR MR. SOUERS: I have received a copy of your memorandum of October 7³⁴ to the Secretary of Defense summarizing the action

³⁴ Not printed.

of the National Security Council at its 23rd meeting regarding the presence of United States Armed Forces in Tsingtao, China. I have also received a copy of the Navy Department's summary ^{34a} of the same proceedings.

The capture of Tsinan by the Chinese Communists has resulted in a large Communist force in Shantung Province which is, as far as is known, not committed to action and which may at any time move against and rapidly reduce the Nationalist defenses at Tsingtao. Under these conditions the presence of U. S. Naval Forces in the city gives rise to a critical situation which requires urgent consideration by the Council. In my opinion it would be most unwise to defer this consideration pending conclusion of a general study of the position of the United States in China, as was suggested during discussion of the problem at the 23rd meeting of the Council. I accordingly recommend that this subject be placed on the agenda for consideration at the next meeting and that it be brought again before the Council for review in six weeks.

It is evident that it would be contrary to the interests of the United States to have its armed forces drawn into active hostilities with the Chinese Communists. This Department holds the view that under present conditions the serious danger of such involvement which arises from the presence ashore in Tsingtao of several thousand United States Naval and Marine personnel with their dependents is not counter-balanced by commensurate advantages to the United States. Nevertheless, it is recognized that an abrupt withdrawal or even steps indicating an intention to withdraw might, in present circumstances, adversely affect American prestige and the morale of defending Nationalist troops and would probably invite Communist attack.

The problem essentially is to extricate Admiral Badger's command from a situation which is becoming untenable and to carry out this operation in such a way as to cause minimum damage to American prestige and Chinese morale. In order to accomplish this under existing conditions it is believed that Admiral Badger should at once take steps to effect in an orderly manner the evacuation of Navy dependents at Tsingtao and, insofar as possible, the liquidation or transfer to shipboard of shore-based activities. His objective should be to place his command insofar as possible on a mobile basis which would permit a seemly and rapid withdrawal from shore to ship should this become necessary either as a result of Communist attack or a final decision of national policy. At the same time steps should be taken, in the discretion of the Department of the Navy, to strengthen Admiral

^{34a} Not printed.

Badger's defensive position at Tsingtao. It is believed that if these two operations are coordinated and carried out simultaneously, the evacuation of dependents and liquidation of shore installations would be looked upon as an integral part of the Navy's preparations to defend itself and could be carried out without jeopardizing Nationalist morale or encouraging a Communist attack upon the city.

The course recommended in the preceding paragraph is based upon the assumption that if the U. S. Navy manifests an intention to defend itself in Tsingtao, the Communists will under present circumstances be deterred from launching an attack on the city in the immediate future. Given the past reluctance which the Communists have shown to attack Tsingtao and the existence of several other possible Communist objectives in north China which would appear more attractive strategically than an attack on Tsingtao, this would appear a valid assumption. Should the presently uncommitted Communist forces in Shantung move in force against one or more of these other objectives, the threat to Tsingtao would be temporarily lifted and a favorable opportunity for completing the shore to ship operation would be presented. By having already evacuated his dependents and liquidated nonessential shore installations, Admiral Badger would be in a much better position to act upon any subsequent decision of the National Security Council.

It is, of course, possible that the measures discussed above will not prevent a Communist attack on the city. It should be recognized that the effect on American prestige and Chinese morale of undertaking a withdrawal under these circumstances would probably be even more serious than at present and it may become necessary, should the contingency arise, to determine whether American interests can best be served by complete withdrawal from Tsingtao waters or by withdrawal of all Naval units to shipboard in Tsingtao Bay with the intention of maintaining strict neutrality during the course of the battle. In either case, Admiral Badger's position will be greatly strengthened if his forces are already largely based on his ships, thereby enabling evacuation from the city in a rapid and orderly manner.

As the opportunity for phasing out naval operations at Tsingtao with minimum disadvantage to the United States has passed, no entirely safe course is now available. In making its recommendation, the Department of State has attempted to evaluate relative risks and to select that course which, in the light of existing circumstances, seems most expedient. Accordingly, I request that this letter be circulated to the other members of the Council for their information prior to the next meeting.

Sincerely yours,

ROBERT A. LOVETT

811.3393/10-1948

Memorandum by the Acting Secretary of State to the Director of the Joint Staff of the Joint Chiefs of Staff (Gruenther)

WASHINGTON, October 19, 1948.

Reference is made to your note of October 19,³⁵ informing me that the Secretary of Defense has referred the President's memorandum of October 18, 1948³⁶ regarding United States Naval Forces at Tsingtao and aid to north China to the Joint Chiefs of Staff for comment and recommendation. You offer to bring to the attention of the Joint Chiefs of Staff any views which I may have regarding this subject.

The National Security Council has before it for consideration at its next meeting a letter³⁷ containing the views of the Department of State regarding the presence of United States Naval Forces at Tsingtao. Although this letter, a copy of which is attached, was written before I had received a copy of the President's memorandum, I have since reviewed it and believe that the views expressed therein are consonant with the President's suggestion.

I have noted that the President suggests "that the withdrawal from Tsingtao not take place at this time" and would assume that the directive from the Joint Chiefs of Staff to Admiral Badger set forth in telegram 83805 of June 14, 1948³⁸ does not conflict therewith, since the latter is for the guidance of Admiral Badger only in the event that at some future date the Communists launch an attack upon Tsingtao.

The Secretary of State's letter of August 13³⁹ and my letter of October 13 [15], 1948,⁴⁰ to Secretary Forrestal, bespeak this Department's keen interest in expediting aid to north China.

ROBERT A. LOVETT

893.00/10-2548

The Director of the Office of Far Eastern Affairs (Butterworth) to the Minister-Counselor of Embassy in China (Clark)

WASHINGTON, October 25, 1948.

DEAR LEWIS: The Tsingtao situation continues a pressing problem in the solution of which it is exceedingly difficult to obtain agreement

³⁵ Not printed.

³⁶ *Ante*, p. 181.

³⁷ *Supra*.

³⁸ Apparently the message for the Commander, U. S. Naval Forces, Western Pacific, p. 320.

³⁹ *Ante*, p. 137.

⁴⁰ *Ante*, p. 178.

among the concerned agencies of the Government. In order that you may be *au courant* of developments here in regard to this problem, I am enclosing copies of the following documents:

(1) Letter from the Acting Secretary to the Executive Secretary of the National Security Council dated October 14, 1948;⁴¹

(2) Memorandum from the Director of the Joint Staff to the Acting Secretary dated October 19⁴² enclosing a copy of a memorandum for the Joint Chiefs of Staff;

(3) Memorandum from the Acting Secretary dated October 19⁴³ in reply to the memorandum listed immediately above.

As you will note from the enclosure listed under (2), the President, following a conversation with Messrs. Hoffman⁴⁴ and Lapham,⁴⁵ sent a memorandum on October 18 to the Secretary of Defense suggesting that withdrawal from Tsingtao not take place at this time and that aid to North China be expedited. The Acting Secretary's letter to the NSC was, of course, written before the President's memorandum to Secretary Forrestal. However, after reviewing the letter we believe the steps recommended therein to be consonant with the President's memorandum. At yesterday's meeting of the NSC it was agreed to defer consideration of the letter until the meeting on November 4.

We have also taken the view, as you will note from the enclosure listed under (3), that the existing directive from the JCS to Admiral Badger instructing him to evacuate U. S. forces in the event of a Communist attack and should the situation so require is not in conflict with the President's memorandum. We have not been informed yet of the action, if any, taken by the JCS at their meeting on October 20.

It is evident from the foregoing that the Tsingtao problem is still very much up in the air. Our immediate objective is to have Admiral Badger's command placed on a mobile basis by evacuating Navy and Marine dependents and liquidating, insofar as possible, shore installations. We consider this a preliminary step necessary either to meet an emergency or to carry out whatever policy decision may be made regarding the retention of U. S. forces in Tsingtao.

As ever,

[W. WALTON BUTTERWORTH]

P. S. Since writing the foregoing, we have been informed that the JCS on October 23 cancelled the directive to Admiral Badger mentioned in the penultimate paragraph above and (1) authorized him to use his forces for the protection of United States interests and for

⁴¹ *Ante*, p. 326.

⁴² Not printed.

⁴³ *Supra*.

⁴⁴ Paul G. Hoffman, Administrator of the Economic Cooperation Administration.

⁴⁵ Roger D. Lapham, Chief, China Mission, Economic Cooperation Administration.

the maintenance of order in connection therewith, within the Tsingtao perimeter, (2) instructed him to be prepared for prompt evacuation of dependents, U. S. nationals and other nationals from Tsingtao when in his judgment the situation so requires, (3) instructed him to be prepared to evacuate U. S. Forces on orders of the JCS and (4) requested him to keep the appropriate authorities informed of any change in the situation and of any action taken pursuant to the directive.

893.00/10-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 26, 1948—8 p. m.

[Received October 27—2:56 a. m.]

2002. For Butterworth from Clark. Badger reports new directive giving him freedom action "within Tsingtao perimeter". Although he should keep "appropriate authorities" advised, his hands are free until further instructed. Should Communists threaten Tsingtao, he visualizes informing them his intention defend city. He has already released to local garrison million rounds "defective" ammunition and has informed local defense commander his preparedness conduct a defense Tsingtao perimeter. Also he is reported to have informed local commander of his intention take definite steps remedy desperate food, fuel and raw material deficiencies Tsingtao area.

As it seems inconceivable Badger would be taking such position without instructions, situation points up our need information re JCS approved recommendations. Should appreciate any information available. [Clark.]

STUART

893.00/10-2748 : Telegram

The Acting Secretary of State to the Consul General at Tsingtao (Turner) ⁴⁶

WASHINGTON, October 27, 1948—7 p. m.

144. For your confidential info following is substance new directive issued by Joint Chiefs of Staff to Admiral Badger, Oct 23, at which time previous directive cancelled. Admiral Badger authorized use his forces for protection of U. S. interests and for maintenance of order in connection therewith within Tsingtao perimeter. He instructed

⁴⁶ Repeated to the Ambassador in China as telegram No. 1505.

be prepared for prompt evacuation dependents, U. S. nationals and other nationals from Tsingtao when in his judgment situation so requires and be prepared evacuate U. S. forces on order of Joint Chiefs of Staff. Finally, he requested keep appropriate authorities informed any change in situation and any action taken pursuant this directive.

Dept desires receive info for its own confidential use any steps taken by Admiral Badger pursuant this directive.

LOVETT

811.3393/10-2848

*The Acting Secretary of State to Rear Admiral Sidney W. Souers,
Executive Secretary to the National Security Council*

WASHINGTON, October 28, 1948.

MY DEAR MR. SOUERS: In my letter to you dated October 14, I pointed out that in the opinion of the Department of State there has arisen in Tsingtao a potentially explosive situation. The Department of State has received no information indicating that this situation has become less serious than at that time.

Since my letter was written, the Joint Chiefs of Staff have cancelled their directive of June 14, under which Admiral Badger was instructed to evacuate U. S. forces from Tsingtao in the event of a Communist attack on the city and, in place thereof, have issued a new directive authorizing him to use his forces "for the protection of U. S. interests and for the maintenance of order in connection therewith within the perimeter of Tsingtao". This directive seems to allow Admiral Badger wide discretionary authority.

In view of the dangerous possibilities in the Tsingtao situation and the apparently discretionary nature of Admiral Badger's present directive, I believe it important that the concerned agencies of the United States Government be informed promptly of the action which Admiral Badger contemplates under this directive in the event that the Chinese Communists attack Tsingtao and of the steps which he is taking pursuant to his new directive.

Sincerely yours,

ROBERT A. LOVETT

893.00/11-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 1, 1948—6 p. m.

[Received November 1—11:08 a. m.]

2053. Revised directive to Badger, Deptel 1505, October 27,⁴⁷ seems to increase possibility of conflict between American and Communist

⁴⁷ See footnote 46, p. 331.

forces. Should such occur, safety all Americans remaining China might be jeopardized. This is particularly true of dependents [of] JUSMAG ⁴⁸ in view of fact that JUSMAG is agent Chinese Government publicly assisting Chinese Government military establishment.

With crushing of so many armies in Mukden theater and with known low morale Government forces Hsueh area, it is within capabilities 21 Communist columns facing Hsueh area either to overrun or bypass Hsueh and to attack Nanking. There is as yet no sign from the Generalissimo that he is discouraged by the recent serious military reverses or intends to give up and step aside. In fact I had a message from him only last night telling me not to worry about the military situation; that he was going to win this war with the Communists after all. Yesterday's announcement that Bullitt ⁴⁹ will visit China in official capacity as representing joint Congressional Committee will certainly be interpreted in Nationalist circles as renewed American interest in China and act as tonic to the Generalissimo and his wavering supporters. These recent developments indicate continuing resistance by the Nationalist Government to Communist military sweep and increase the possibility that Nanking will be taken by assault rather than negotiated transfer with the consequent jeopardy to dependents this city particularly those of JUSMAG. If on the other hand Communist dominated Nationalist Government established before attack on Nanking, it would seem certain that JUSMAG would be withdrawn. Given this picture of situation, General Barr feels it desirable at this stage to order evacuation JUSMAG dependents and we concur. He has received authority to ship dependents home in last few days and proceeding with preliminary arrangements.

Because of rapidly deteriorating economic as well as political military situation, we believe it is not too early to issue preliminary formal warning to American citizens this district to leave while normal transportation facilities are still available. Communist forces in eastern Kiangsu and along the Grand Canal are an increasing threat and Shanghai is already an uneasy back door. This added to the West Coast shipping strike and the consequent limitation of commercial means of travel to USA are additional reasons why American citizens, uneasy in the present situation, should make their arrangements to leave central as well as north China. Consequently we are considering the issuance of formal warning to American citizens Nanking within next few days as well as instructing Consulate[s] General Shanghai and Hankow to follow similar course. First step would be used by General Barr as basis compulsory evacuation JUSMAG dependents. It would not only facilitate the implementation of his decision but would furnish plausible reason for public and press consumption.

⁴⁸ Joint U. S. Military Advisory Group.

⁴⁹ William C. Bullitt, former Ambassador in the Soviet Union and in France.

Obviously repercussions of AAG dependents will be significant and we will not proceed with warning or evacuation AAG dependents without advising Generalissimo. Furthermore plan requires coordination with ComNavWesPac who has not yet begun evacuation of dependents Tsingtao. Representatives AAG and Embassy flew to Tsingtao this afternoon to attempt coordination evacuation plans. Department will be advised results.

Availability Army and Navy transports for evacuation AAG dependents departing Shanghai November 9 and 24 make this decision one of extreme urgency.

STUART

893.00/11-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 2, 1948—5 p. m.

[Received November 2—8 : 18 a. m.]

2065. Admiral Badger is preparing cable CNO regarding action contemplated under revised directive Deptel 1505, October 27⁵⁰ which closely parallels third alternative our 1871, October 8, 3 p. m. He is urging dependents depart but feels repercussions locally from ordered evacuation dependents would have harmful effect outweighing beneficial evacuation all dependents. He expressed to Minister-Counselor complete confidence his ability evacuate on short notice Navy dependents as well as all Americans Tsingtao without in any way affecting his ability handle any emergency evacuation situation arising North China.

Danger point [would be?] should Communists fail to heed his protestations of neutrality, demand his immediate evacuation and endeavor overrun his installations. Under such circumstances Badger, quite rightly we believe, refuses to commit himself in advance as to action he would take. Such action, he says, would depend on circumstances.

STUART

893.00/11-948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 9, 1948—7 p. m.

1583. For your confidential info JCS, reflecting NSC decision, have cancelled all previous directives re action to be taken in event of

⁵⁰ See footnote 46, p. 331.

attack or threatening attack against Tsingtao by Chinese Communists and measures to be taken in existing situation at Tsingtao and have substituted therefor new directive in substance as follows:⁵¹

Political decision has been made that US forces are to remain in Tsingtao but are to be placed in state of readiness to withdraw on short notice at future date if ordered.

It is desire of JCS place you in state of readiness evacuate Tsingtao on short notice if ordered at future date. It is desirable that measures you take be implemented in such manner that they do not indicate that any final decision with regard evacuation has been taken. For your info no decision as to eventual withdrawal or retention US forces in Tsingtao has been made.

To aid in keeping Chinese from concluding that readiness measures taken are preparatory to withdrawal, Tsingtao will be reinforced at least for period. Reinforcements from Marines now Guam will be sent Tsingtao as soon as shipping and/or airlift available. Portion of Task Force 38 will be maintained Western Pacific beyond presently scheduled date.

Evacuate Navy and Marine Corps dependents in orderly manner.

Embark, or ship excess material. Ship base shore activities as feasible. Be prepared evacuate US Forces from Tsingtao at short notice on order JCS.

In event threat of attack, inform JCS who will then issue further instructions. You will not mediate between Communist and Nationalist leaders for orderly turnover of city unless instructed by JCS.

In event attack without warning by Communist forces on Tsingtao or in event of local uprising or local disturbance you are authorized use your forces for protection of Amer lives and property.

Keep appropriate authorities informed of any change in situation and any action taken in accordance this Directive. End summary of directive to Badger.

LOVETT

893.00/12-248: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 2, 1948—noon.

[Received December 2—3:46 a. m.]

194. Reference final paragraph Deptel 144, repeated Nanking 1505, October 28 [27] and reDeptel 1583 to Nanking, repeated Tsingtao 158, November 9. Admiral Badger implementing latest JCS (Joint Chief of Staff) directive following manner: Dependents being evacuated 3 transports November 26, December 8, January 5; retaining control all dwellings rented by Navy Housing Board but leaving rental payments; excess materials being lifted 3 specially assigned vessels by

⁵¹ This JCS directive was based on a policy approved by President Truman on November 5, 1948, after consideration in the National Security Council.

December 15; no sign as yet of removal shore activities to ships and understand no additional ships yet assigned; military police and motor pool complements increased from Guam Marine contingent, remainder going Shanghai be billeted aboard USS *Bayfield*.

Discussion last evening with planning and intelligence officers Badger's staff revealed Badger desires advocate to CNO early withdrawal US forces from Tsingtao. Chief of Staff Rear Admiral Rees and other staff members attempting persuade him necessity staying here as long as possible. Third faction desires merely summarize current situation without advocating particular course. Final decision will be taken within day or two.

Sent Nanking 357, repeated Department 194.

STRONG

811.24593/12-248

The Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State

[WASHINGTON,] December 2, 1948.

Subject: Comments Regarding Suggested American Control of Shanghai and Tsingtao

It is believed that under present critical conditions, the Chinese Government would be receptive to suggestions that the U. S. assume responsibility for the defense of Shanghai, Tsingtao or other areas of China, and that a cloak of legality could be provided for a move of that kind. However, the Chinese Communists would take full advantage of it to belabor the Chinese Government for selling out to U. S. imperialism and to draw an effective, if inaccurate, parallel between Chiang Kai-shek and the U. S. on one hand and Wang Ching-wei⁵² and Japan on the other. The intense nationalism of the Chinese would make this line particularly effective with the net internal result further weakening of popular support of the present Chinese Government, increased support of the Chinese Communists and increased ill-will toward the U. S.

Should the U. S. continue to occupy the cities following the collapse of the present Chinese Government, it is doubtful that any cloak of legality derived from that Government would protect the U. S. from charges in the UN and elsewhere of maintaining bases in China solely for reasons of power politics. These charges might seriously weaken the moral leadership of the U. S. in world affairs.

It is believed that it would be impractical from a military and political point of view to restrict U. S. forces to the defense and control of port facilities and key shore installations and that defense and

⁵² Chinese head of Japanese-sponsored regime in China, 1940-44.

control of substantially the entire municipal areas of Shanghai and Tsingtao would be necessary. However, it is believed that by assuming responsibility for the cities, we would voluntarily place ourselves in a position extremely vulnerable to Communist pressure. The present population of Shanghai is estimated at between 5 and 6 millions; that of Tsingtao at about three-quarters of a million. The number of Chinese refugees in these cities is already large and would increase tremendously as soon as it became known that the U. S. had assumed responsibility for the cities. Should the Communists decide to block the flow of commodities from the hinterland to the cities, the U. S. would be faced with the alternatives of supporting to a large degree and for an indefinite period these masses of humanity with little evident gain to ourselves or of withdrawing under pressure with serious loss of prestige.

From the standpoint of exerting pressure on the Communists, Shanghai and Tsingtao in Communist hands would probably be more useful to us than in our own hands, for the Communists would then be responsible for the continued functioning of the complex and highly integrated economies of those cities and would probably have to continue the importation of essential commodities and industrial supplies from the U. S. to avoid economic chaos and attendant social unrest.

Finally, the defense of either Tsingtao or Shanghai against external Communist attack and infiltration from within would be a major task which might well draw us into active military operations on an increasing and unpredictable scale. Organized Communist terrorism calculated to create chaos and provoke our forces to indiscriminate retaliatory action would be an ever-present danger.

If there are vital reasons, arising out of the over-all strategic needs of the U. S., for maintaining American bases in China, it is believed that the National Military Establishment should formulate these reasons in order that they may be weighed against the serious objections to such measures outlined above.

A separate memorandum ⁵³ is being prepared discussing in more detail the position of U. S. Naval forces at Tsingtao.

811.3393/12-248

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State*

WASHINGTON, December 2, 1948.

Attached is a memorandum (Tab A) ⁵⁴ outlining developments concerning the U. S. Navy Forces at Tsingtao from May 1948 until the

⁵³ *Infra.*

⁵⁴ Not printed; it presented information which is contained in other documents here printed.

present time. It will be noted that the directive issued to Admiral Badger on June 14 ⁵⁵ required that he evacuate Tsingtao in the event of a Communist attack but that subsequent directives in October and November have cancelled the original directive. Under his existing directive of November 6, Admiral Badger is authorized to use his forces to protect U. S. lives and property in the event of an attack by the Communists without warning and instructed to (1) inform the JCS and seek further instructions in the event of the threat of a Communist attack and (2) to place his command in a state of readiness to withdraw on short notice if ordered to do so by the JCS.

It is not believed that a Communist attack upon Tsingtao is imminent since their major forces in this general area are probably now committed to the Hsueh-Nanking campaign. However, if this campaign results in the capture of Nanking or if strong Communist forces enter north China from Manchuria and force General Fu Tso-yi ⁵⁶ to withdraw from the Peiping-Tientsin area, it is believed that Admiral Badger should immediately withdraw his forces from Tsingtao. In case of either of these two eventualities, the Communists would be free to move in force against Tsingtao, which would be an island in the sea of Communist-held territory. To remain in Tsingtao under those conditions would (1) involve the risk of conflict between U. S. and Communist forces, (2) require the U. S. to assume responsibility for providing essential commodities for a city of approximately 750,000 which could easily be cut off from its hinterland by blockading forces, (3) permit the Communists to portray the U. S. as an "imperialistic foreign aggressor", which, in view of the existing xenophobia and nationalism among the Chinese, would find a receptive audience and thus strengthen the Communist position, and (4) involve serious danger for American officials and non-official American residents in Communist-occupied areas of China, as well as jeopardize U. S. property and other interests similarly situated. To withdraw at the time of the fall of Nanking or the withdrawal of General Fu Tso-yi's forces from the Peiping-Tientsin area would be less harmful to U. S. prestige than to await an imminent Communist attack and be driven out.

The only apparent advantage from retention of the U. S. position at Tsingtao under these circumstances would be the possession of this base as a counter to the Soviet position at Port Arthur. The political and psychological disadvantages to the U. S. are, however, so great that they would override all but the most vital and urgent strategic considerations.

⁵⁵ Apparently the message for the Commander, U. S. Naval Forces, Western Pacific, p. 320.

⁵⁶ Commander in Chief of North China Bandit Suppression Headquarters.

It is recommended, therefore, that a paper be prepared for presentation to the National Security Council setting forth the foregoing considerations and recommending that the JCS direct Admiral Badger to evacuate his forces from Tsingtao under either of the two eventualities described above and to report for the information of the concerned U. S. Government agencies any action which he has taken pursuant to his current directive, particularly with respect to undertakings he may have assumed for the defense of any portion of the Tsingtao area.

Executive Secretariat Files : NSC 11

Memorandum by the Acting Secretary of State to Rear Admiral Sidney W. Souers, Executive Secretary of the National Security Council

WASHINGTON, December 14, 1948.

I am enclosing herewith a draft paper on the action which should be taken with reference to U. S. Naval Forces at Tsingtao.

I recommend that this paper be placed on the agenda for consideration of the Council at the meeting to be held on Thursday, December 16, 1948.⁵⁷

ROBERT A. LOVETT

[Enclosure]

*Memorandum Prepared in the Department of State*⁵⁸

Problem: To Determine the Action Which Should Be Taken With Reference to U. S. Naval Forces at Tsingtao in View of the Contemplated Withdrawal of Chinese Naval Units From That City.

Analysis:

1. The Embassy at Nanking has been informed⁵⁹ by the Chief, Naval Division, JUSMAG, that the Generalissimo has approved the removal of the Chinese naval training base and other naval installations at Tsingtao to southern Taiwan and the establishment of a naval academy at Amoy and that the Chief of Staff of the Chinese Navy is actively planning this move.

2. Removal of Chinese naval forces and naval facilities from Tsing-

⁵⁷ At its meeting on December 16 the National Security Council noted and discussed the report by the Acting Secretary of State and referred it to the National Security Council staff for the preparation of a report to the Council.

⁵⁸ Circulated by the Executive Secretary of the National Security Council as NSC 11/2.

⁵⁹ Reported to the Department in telegram No. 2430, December 6, not printed.

tao is probably indicative of a Chinese decision that Tsingtao cannot or should not be defended. Consequently, if American forces remain at Tsingtao, they would probably have to assume primary and perhaps sole responsibility for the defense of the city and the supplying of the civil population, or they would be dependent upon Communist suffrance. It is believed that the former would be folly and the latter impossible. Furthermore, the principal reason for having American naval forces in Tsingtao, viz., the Chinese naval training program, would cease upon the departure of Chinese naval forces, and a providential opportunity for withdrawing U. S. forces without loss of prestige and with minimum damage to Chinese Government morale would arise.

3. Removal of Chinese naval installations to Taiwan and Amoy would supply a basis for the concurrent movement of U. S. forces to those places. If, for overall strategic reasons, it is desirable to maintain a U. S. naval installation in Chinese waters, the location of the installation on Taiwan would appear, in the light of the progressive disintegration of the National Government position, much more tenable politically and economically than at Tsingtao or Shanghai or any other mainland city. The absence, insofar as is known, of significant Communist penetration of Taiwan and the evident difficulties which would confront the Communists in attempting direct military assault on the island would probably render such installation relatively free from Communist pressure, at least for the time being. For the same reason, the danger of U. S. forces becoming directly involved in hostilities with Communist forces would be small.

4. On the other hand, there are evident disadvantages in establishing U. S. naval forces either at Amoy or on Taiwan. If such forces were located at Amoy, the extension of Communist control over South China would lead to the flocking of Chinese refugees to that city. If Communist control of the surrounding area should be consolidated, our forces would be faced with the probability of direct conflict with the Communist forces and with the problems of providing essential commodities for the refugee-swollen city cut off from its normal sources of supply and coping with organized Communist infiltration and terrorism.

5. The Department of State recognizes the strategic importance of Taiwan and is fully cognizant of the undesirability of it passing under the control of a Chinese Communist-dominated government. However, the stationing of American naval forces on the island at this time would cause mainland Chinese to flee to Taiwan in large numbers in the belief that they would be protected by the U. S. Navy. In view of the dismal record of Chinese administration of Taiwan to

date, this additional influx of Chinese refugees, which would inevitably include large numbers of predatory politicians and carpet-baggers, could only increase the burden on the island's economy and exacerbate the present Taiwanese hatred of mainland Chinese. By thus paving the way for Communist infiltration and Communist inspired uprising of the Taiwanese, the stationing of U. S. naval forces on Taiwan would, at this juncture, unless offset by other factors which are not now present, facilitate rather than prevent the spread of Communism in the island.

6. Furthermore, the stationing of U. S. naval units on Taiwan, by lending credence to Communist charges that we are preparing to detach the island from China, would endanger U. S. interests and jeopardize the position of U. S. officials and other American residents throughout the mainland of China. It would strengthen the position of the Chinese Communists politically as the defenders of China's integrity against U. S. imperialistic aggression, and would tend to unite all Chinese regardless of political affiliations or belief in a movement for the restoration of Chinese territory. The U. S. would, in brief, have largely succeeded to the position of Japan. Finally, those forces opposing us throughout the world would seize the opportunity thus presented to charge us with imperialistic and predatory designs upon Taiwan.

7. The decision has been reached that the Joint U. S. Military Advisory Group will be deactivated and withdrawn from China if Nanking should fall or be seriously threatened by Communist attack. The removal of the U. S. Naval Advisory Division of the JUSMAG would be in keeping with this decision; the removal of the Chinese naval training activities from Tsingtao would provide an excellent opportunity for the U. S. to discontinue its participation in such activities.

Conclusions:

8. Admiral Badger should proceed energetically to evacuate dependents and surplus material and to liquidate shore-based activities. He should be directed at this time to withdraw his forces when it becomes publicly known that Chinese naval training installations will be removed from Tsingtao or as soon thereafter as may be feasible without jeopardizing plans for the evacuation of Americans in China. Public intimation of his intention should be avoided until the Chinese intention to transfer their installations becomes publicly known in order that his withdrawal may be attributed to the Chinese move rather than vice versa.

9. The existing program for training units of the Chinese Navy

should be suspended upon the removal of the Chinese naval training base from Tsingtao.

10. American naval forces should not be established at this time either on Taiwan or at Amoy.

811.3393/12-2348 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 23, 1948—3 p. m.

[Received 9:46 p. m.]

234. Badger called me to flagship forenoon December 21 discuss estimate and recommendations in preparation submission reference maintenance forces here. Told me felt obliged get my opinion view political, economic factors so important. Said Tsingtao had been expected center for evacuation but that phase over; as base, no longer secure; as position vis-à-vis Soviets, no legal standing whereas Soviets occupy Park Hurdairne [*Port Arthur-Dairen*] legal; to hold China desirable but can't be maintained by force; few months ago North and Central China in dispute due low defective military equipment, [North?] broken off back with fatal effect Central China, thus considers China a political-economic problem, not military.

He now felt effect, under Communist occupation, on Embassy, Consulate Generals, private Americans of shooting with Communists 2 months ago; such event might have stiffened Nationalists. Approved persistent Department stand is [against?] involvement civil war, feels only hold on Communists now economic.

I have read estimate which states four alternatives:

- (1) Maintain present forces ashore;
- (2) Maintain present force Tsingtao partly ashore, partly afloat; all logistics waterborne;
- (3) Withdraw completely now;
- (4) Maintain one battalion landing team 1250 men ashore police purposes, support from ships, send remainder Marines Guam or Okinawa outload heavy weapons equipment, base combat planes carrier, most transports outside China.

Expect him recommend fourth course view waning need support Gimo Government, probable small local reaction and Department's desire avoid incident less shipping tied up in waterborne force. Is within terms present directives and can pull out very fast.

Badger believes will be forced out soon to avoid incident which Communists will provoke. CO Marines here states joint occupation with Communists impossible. Plans officer feels strongly fourth course vacillating, all forces should be withdrawn soon.

In view reference local effect complete withdrawal, timing important. Necessity rely on Communists maintain order rather than police or Nationalist military point to desirable create most favorable conditions for Communists take over. Believe reduction Marines and establish completely waterborne support cause no major local reaction but would be indication to Communists to plan take over near future, would allow time outload Nationalist troops which greatest internal security threat. Communists Tsingtao presumably several thousand well-organized, probably prevent much serious looting and violence if balance Marines made sudden exodus. Believe safety at least 150 Americans depends this factor. Would seem probable Nationalist and particularly if Peiping-Tientsin lost. Serious fight between Communists and Marines might well necessitate evacuation entire Consulate General. Am attempting learn indirectly extent Communist organization and plans.

Sent Nanking 401; repeated Department 234.

STRONG

811.3393/12-2748: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 27, 1948—5 p. m.

[Received December 27—6:41 a. m.]

238. Estimate (refmytel 401 to Embassy, repeated Department 234, December 23) still being revised. From conversation yesterday with planning officer gathering Admiral Badger swinging to view should retain entire Marine force ashore supported from ships; at time withdrawal necessary, would leave small force ashore protect lives, property during turnover.

Communist official Tsingtao of unknown rank in informal talk with West of Presbyterian mission stated Communists here already organized, could take over short notice, expect do so in about 2 months; Chinese Army, Navy, police infiltrated, believe people would remain quiet; fear only possible looting by Chinese soldiers. Expressed expectation small Marine force would remain help Communists keep order. Said Marines would not be molested; Communists desire avoid incidents in order assure future trade with US.

I am of opinion if Marines not withdrawn until majority Nationalist troops leave, turnover will be peaceful and no need for Marine detachment remain ashore. Bulk of population realizes Communists will punish looters or saboteurs, thus will remain quiet. If significant number Nationalist troops remain, small group carefully selected indoctrinated Marines desirable. West's Communist contact requesting

higher Communist official enter Tsingtao for conversation reference take over. I am not seeking interview but feel desirable accede to request by Communist official for informal meeting.

Sent Nanking 407; repeated Department 238.

STRONG

811.3393/12-2848: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 28, 1948—5 p. m.

1895. For your info, following is substance NSC recommendations which have been approved by the President: ⁶⁰

As result transfer Chinese Naval Training Center from Tsingtao, shore-based activities of US armed forces that city should be withdrawn. Dept State in consultation Dept Navy should determine announcement and timing this withdrawal. Decision withdraw shore-based activities Tsingtao should not be construed as determining that US Naval forces will withdraw from Chinese waters. Upon removal Chinese naval training activities Tsingtao, existing program for training units Chinese Navy should be suspended and should not be reestablished at this time on Taiwan or at Amoy.

LOVETT

811.3393/12-3148: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 31, 1948—10 a. m.

[Received December 31—3:55 a. m.]

254. In discussing withdrawal forces ashore Tsingtao, Admiral Badger yesterday stated had sent telegram President Truman asking who Pinks were advising President and Secretary State withdraw forces at this time. Believe he really has tongue in cheek view absence USN concurrence and exhibition almost of pleasure at being relieved of responsibility of shore-based activities.

Badger admitted intention keeping recreational facilities, Edge-water Mansions, his residence (as guest house) and portion port facilities administration building (for small administrative organization and Marine guards shore patrols). Thus appear hopes use Tsingtao as main fleet anchorage, keep one foot ashore. Probably recommend bulk of Marines to Guam. Each his cruisers has Marine complement, at least one plane.

⁶⁰ Approved by President Truman on December 24, 1948.

Reference announcement and timing withdrawal, Badger expressed desire execute withdrawal early date, dependent availability of adequate ships which not scheduled early arrival but can be obtained by diversion others. Desires commence loading only when can carry through completely. Has no firm attitude on announcement but desires none before last group dependents departs about January 6. Staff favors withholding announcement until loading under way in order not provoke additional efforts thieves penetrate installations with resultant shooting, also not cause stampede to docks by Chinese wanting evacuate which hamper loading.

Estimate 25 to 50 American civilians will request outward transportation when forces ashore depart. To obviate tip-off by pointed warning such persons leave by naval transport January 6, [1949] Badger has agreed carry last-minute evacuees Shanghai where commercial transportation expected available. Will also have problems hundreds persons other nationalities wanting evacuate, mostly without documentation other areas.

Sent Department 254, repeated Nanking 429.

STRONG

EFFORTS LEADING TO RELEASE OF UNITED STATES MARINES CAPTURED BY CHINESE COMMUNISTS

811.3393/12-2747: Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, December 27, 1947—2 p. m.

[Received December 27—6:01 a. m.]

138. Four Marine enlisted men on hunting excursion in jeep were seized by Communists noon, December 25 at 2 kilometers northwest Lingshan, 36 miles north of Tsingtao. Party was 18 miles north of authorized hunting limits. Arms included 3 shot guns, 1 carbine. Jeep destroyed by burning. No word has been received from or concerning missing men.

Sent Embassy 1645; repeated Department 138.

SPIKER

811.3393/12-2747

*Memorandum of a Telephone Conversation, by the Chief of the
Division of Chinese Affairs (Ringwalt)*

[WASHINGTON,] January 2, 1948.

In reply to my inquiry, Admiral Wooldridge ¹ informed me that his office had received no further information in regard to the four Marine enlisted men reported to have been seized by Communists north of Tsingtao on December 25 (Tsingtao's telegram no. 138 of December 27, 1947).

I said that we had been increasingly concerned over the fluid state of hostilities in China and expressed the opinion that, because of evidences of increasing Communist efforts to arouse anti-American feeling, it was likely that members of the United States armed forces captured by the Communists would fare less well than had previously been the case. I suggested that he might wish to recommend to Admiral Murray ² at Tsingtao that steps be taken to reduce the occurrence of incidents such as those referred to in the reference telegram.

¹ Rear Adm. E. T. Wooldridge, Assistant Chief of Naval Operations for Politico-Military Affairs.

² Rear Adm. S. S. Murray, Senior member, U. S. Naval Advisory Survey Board in China.

Admiral Wooldridge replied that whereas he would hesitate to issue any instructions to Admiral Murray in regard to matters pertaining to local discipline, he felt that a word of caution would not be out of place and would take action to that effect.

893.00/1-548

*The Consul General at Tsingtao (Spiker) to the Ambassador in China (Stuart)*³

[Extracts]

No. 1

TSINGTAO, January 5, 1948.

SIR: I have the honor to submit a report of military and political developments in the Tsingtao Consular District during December, 1947.

Disappearance of U.S. Marines

On December 26 it was learned by the Marine Headquarters here that at noon on the previous day four American Marine enlisted men, engaged in a Christmas Day hunting expedition, had been captured, presumably by Chinese communists. The men had received permission to go hunting, but had driven in a jeep far beyond the authorized hunting limits, which are approximately 18 miles north of the city, at the Paisha River. Although the Chinese Garrison Headquarters reported that the men had been captured at a point two kilometers northwest of Lingshan, subsequent investigation revealed that the incident occurred 10 kilometers northwest of that town, or approximately 42 miles from Tsingtao. The jeep reportedly was burned. As that area became inaccessible owing to the withdrawal of Government forces from the Laiyang road following evacuation from that city about December 27, it was not practicable for American investigators to visit the scene. By December 31 it had been established by the local Marine authorities that an additional enlisted man was probably included in the party, although he had not been granted clearance to make the trip. A report from Garrison Headquarters on December 29 that one of the party had been killed and buried near the scene of the incident subsequently was revised (after the organization of an investigation expedition) by further "information" that the body had already been removed from its grave by the communists. A Marine intelligence officer who visited Lingshan on December 31 found

³ Copy transmitted to the Department by the Consul General without covering despatch; received February 5.

that the Chinese Army authorities in that area had been able to learn nothing of the fate of the Americans, and had made no report to Garrison Headquarters concerning the burial of a Marine.

It is the intention of the Marine authorities to await developments, if any, and not to attempt to penetrate what is now communist territory 6 miles beyond the Government's Lingshan salient to investigate the scene of the affair. The presence of a party of enlisted men, armed with at least three shotguns and a carbine, in an area which on December 25 was virtually No Man's Land, invited trouble. It is obvious that the communists may seize upon the incident as evidence of the operations of an Armed American patrol in a sector of active operations, and seek to publicize the case as an example of American participation in the civil war. On the other hand, if all members of the party were killed, the communists may prefer to make no mention of the affair.

Respectfully yours,

C. J. SPIKER

846G.00/1-1048 : Telegram

The Consul General at Tsingtao (Strong) to the Secretary of State

TSINGTAO, January 10, 1948—1 a. m.

[Received 1:37 p. m.]

9. Communist prisoner of Government forces Lingshan when interrogated by US marine officer January 8 reported 5 marines in jeep December 25 were fired upon with machine guns when driving into Communist-held town of Wangtan-yuan. One marine returned fire with carbine. One marine killed, one Communist wounded. Identity marine reported killed unknown. Marine authorities here prepared to send detachment to recover body dead marine if approximate location grave becomes known and if such action appears feasible and indicated.

Government general at Lingshan reports he has assigned four secret operatives in Communist territory to obtain information whereabouts condition of captives.

Handling of case by marines has been hampered by contradictory and confusing reports from garrison commander, whose first report on December 29 of death one marine in incident was denied by alleged eye witnesses interviewed by marine officer at Lingshan December 31. Garrison commander in press conference January 8 reiterated one marine killed.

STRONG

893.00/2-1548 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, February 15, 1948.

[Received February 15—10:49 p. m.]

76. Chinese Communist Chinese language radio news broadcast 750 kcs February 14, 1730 to 1930 hours, included following item (in translation) :

"North Shensi News spokesman, General Affairs Section of Chinese People's Liberation Army, has made statement re case of participation on December 25 last year of 5 American marines in Chinese civil war at Wanglintao area north of Chimo stating: Effort of American Navy Department to explain that activities these 5 American soldiers was not participation in China's civil war is futile (? *Tu jan*—abrupt). These 5 marines were at point more than 100 Chinese li away from Tsingtao fighting with People's Liberation Army, and moreover that place at that time was exactly on firing line. At that time 8 brigades of bandit Chiang's⁴ troops under encouragement and urgent hopes American reactionary group, were just in midst advance against and surrounding of People's Liberation Army of Laiyang area. Spokesman noted that stationing American armed strength and military men on Chinese soil was insult to and infringement of China's independence. That excepting for bandit band of Chiang Kai-shek, which is perfectly willing act as running dog for American imperialism, there were no Chinese who did not strongly oppose this type of insult, and aggression, that American armed strength and military men act outrageously and shamelessly everywhere in China and moreover assist Chiang Kai-shek carry on civil war, is fact known by everybody. This is completely aggressive activity of imperialism. Great Chinese race definitely cannot suffer this sort of aggression. Spokesman noted that since 1945 to present, American armed strength and military men have uninterruptedly aggressed against Liberation Army and observed military affairs. He moreover noted unreasonable demands including among important ones, as when on October 4, 1945, one American destroyer suddenly arrived Yentai (Chefoo) in liberated area and there was an American Army colonel who went ashore and demanded that People's Liberation Army should at once withdraw from Yentai and hand over Yentai municipal government to American Army to handle. This was naturally refused by our side in stern words. From October 11 to 12, 1945, American Army occupied Chinwangtao and moreover used that place as bridgehead for Chiang's armies attack Shanhaikuan and liberated area of northeast. American Army acted as vanguard for attack of Chiang bandits on Shanhaikuan. In 2 months, June and July 1946, American Army protected Peining⁵ (rail) line on behalf Chiang Kai-shek, moreover uninterruptedly aggressed against our East Hopei liberated area. On July 29 same year there exploded the well-known Anping affair⁶ when American Army military police (*Hsun Lo Tui*—scouting

⁴ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

⁵ Peiping-Liaoning (Mukden).

⁶ For correspondence on this subject, see *Foreign Relations*, 1946, vol. ix, pp. 1388 ff.

party?) joined up with Chiang bandits in aggression against Anping liberated area in Hsiang Hopei province. On March 1, 1947 American Army officers Rigg and Collins were joined with Chiang army in aggression against our northeastern liberated area in vicinity Changchun and were captured by our troops.⁷ (They) naturally deposed that they were carrying on military observation. On April 24, moreover, our army released (them). On August 27, 1947, two American fighter planes infringed upon Langnankou and Hsiaolitao of Mouping-hsien in Chiaotung (Shantung peninsula). One of them was forced to land. Its pilot Lieut. Winters (transliteration) was saved from danger by our troops and people. Next day 7 American planes and 7 American warships proceeded that place and American soldiers from ships arbitrarily landed. Wounded 3 villagers and broke doors, windows and materials. After negotiation Admiral Cooke⁸ and Commander of 71st Naval Squadron expressed regrets in writing and made compensation for losses and our army released Winters.⁹ Various past facts all prove that American armed strength and military men stationed in China are not otherwise than enemies of People's Liberation Army everywhere, and how can People's Liberation Army again deal with them liberally. People's Liberation Army in respect to this case of Wanglintao, Chimo, Shantung, has adopted completely appropriate procedure. American Army should accept all responsibility.

In order avoid recurrence of this type of case American military strength and military men should cease aiding Chiang Kai-shek's civil war of carrying on counterattack against Chinese people and should moreover at once withdraw from China."

News item later same program was as follows:

"North Shensi news. What happened in Wanglintao affair of December 25 last year is like this: In December last year, just at time when bandit Chiang was moving heavy troops for attack on Laiyang of liberated areas, one Corporal Bollard (transliteration), in charge of four soldiers, infringed against liberated area. Troops of Liberation Army on firing line at once reacted in self defense. One first class private was severely wounded and died before medical treatment could be given. Corporal Bollard *et al.* were captured."

Sent Department as 76, repeated Nanking as 125, Tsingtao and Shanghai as 83.

CLUBB

811.3393/2-1748: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 17, 1948—5 p. m.

264. Dept constantly importuned for info re missing Marines and efforts obtain release but in absence info from Emb has referred all

⁷ For correspondence on this subject, see *Foreign Relations*, 1947, vol. VII, pp. 1439 ff.

⁸ Adm. Charles M. Cooke, Jr., Commander, U. S. Naval Forces, Western Pacific.

⁹ See telegram No. 70, August 31, 1947, 5 p. m., from the Consul General at Tsingtao and subsequent correspondence, *Foreign Relations*, 1947, vol. VII, pp. 973 ff.

inquiries Navy. Navy now furnished us copies exchange tels between Amb [and] Adm Cooke one of which refers to an Emb press release. Dept would appreciate summary developments to date including text press release and desires be kept currently informed further developments.

MARSHALL

811.3393/2-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 20, 1948—1 p. m.

[Received February 20—4:27 a. m.]

328. We have issued no press release with regard to missing marine personnel (Deptel 264, February 17, 5 p. m.). Our only comment in answer to inquiries has been that the US Government was doing all possible to secure the release of personnel concerned at the earliest possible date. We had assumed that Department had access to information supplied headquarters, Marine Corps, by FMFWesPac.¹⁰

Since disappearance of marines on December 25 ComNavWesPac¹¹ has taken all feasible measures to establish contact with Communists and to effect release captured personnel. This included use of secret agents and leaflet drops by Marine Corps planes. We have been kept constantly informed of these activities.

On January 10 we expressed to ComNavWesPac our serious concern with regard to the possibility expressed in CGFMFWesPac message 090736Z¹² that a party of armed marines might be dispatched to recover the body of one of the marines following receipt of a report of alleged grave location. I stated that I desired that no party be dispatched for the purpose of recovering any body or releasing marines reportedly held captive without prior clearance from me. I had no objection, of course, to negotiation with the Communists regarding recovery of the body or release of the captives. ComNavWesPac replied that I would be consulted should it appear feasible to send a marine detachment beyond Nationalist lines.

In late January US naval vessels were dispatched Haiyang in effort to establish contact with Communists on beach at that point. On January 31 we were informed of ComNavWesPac's plans to send an armed landing party ashore at Haiyang in effort to contact Communists. I expressed my opinion to ComNavWesPac that such a measure would not succeed but on the other hand might very easily result

¹⁰ Fleet Marine Forces, Western Pacific.

¹¹ Commander, U. S. Naval Forces, Western Pacific (Badger).

¹² Not printed.

in bloodshed with all the undesirable repercussions which might be expected to follow. Accordingly I expressed the hope that ComNavWesPac would agree not to send landing party ashore but would continue efforts to contact the Communists by means less likely to result in armed conflict. To this ComNavWesPac agreed and agreed further to refrain from air dropping "strongly worded" leaflet in Communist area.

On February 3 we were informed that introductory friendly meetings had been held with representatives of Communists on the beach at Haiyang. Conversations were broken off because ComNavWesPac would not consent to naval representative proceeding inland distance of 3 miles to conduct conversations with a more senior Communist commander. Communists likewise refused to carry on conversations aboard naval vessel anchored off Haiyang. On February 10 I found it necessary to dissuade ComNavWesPac from issuing a press release on conversations between his emissary and the Communist representatives at Haiyang. I expressed my strong feeling that any such release would place in jeopardy the success of the objective, namely, the release of US Marine Corps personnel. I reiterated this opinion to ComNavWesPac on February 13 and with reference to a further leaflet drop which ComNavWesPac proposed to make I stated that a strong statement in which an announcement was made of our intention to hold the Communists responsible for the safety and well-being of the marines would make no impression on them since they were fully aware that we were in no position to do anything about the matter beyond making threats. Any such statement seemed to us calculated only to increase Communist intransigence and to make more difficult the release of the marines. Later on February 13 a north Shensi radio broadcast admitted for the first time 4 marines in Communist custody stating that the 5th had died in a field hospital of wounds on the day of capture.

Since February 13 we have been engaged in efforts to reestablish contact with the Communists. We are following two courses at the present time:

(1) We have asked the Consulate at Hong Kong to attempt to establish contact with Communist headquarters there to have relayed to Communist authorities North China message to the effect that Jack Dodds, a Canadian member of FAU [*FAO?*]¹³ well known to the Communists, is willing to act as emissary on our behalf to proceed Communist areas Shantung to discuss method of release four marines believed alive.

(2) We are endeavoring to establish radio communication with Communists via USIS network in order to renew contact with Communists on beach at Haiyang or through Dodds as emissary.

¹³ Food and Agricultural Organization of the United Nations.

Throughout entire period we have considered and have so expressed ourselves to ComNavWesPac that as long as there is the slightest hope the marines are still alive our prime objective should be to keep them that way and that for the time being conciliation and no publicity in the negotiations seemed be best calculated to secure that objective.

On February 18, ComNavWesPac released factual background account of what has gone on to which we have no objection other than that the press interview was without our prior knowledge and counter to our previous strong recommendations in this connection. We propose, however, to take no action in this regard. The Department will be kept informed of further developments.

STUART

893.48/2-2848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, February 28, 1948—3 p. m.

[Received February 28—9:09 a. m.]

457. For the Ambassador.

1. Advised by Dodds, who has just returned from Tsingtao, that Navy has made contact with Communist authorities and will shortly be requesting Dodds to go in as third party emissary in connection release marine (reurtel 144, February 22; repeated Department as 336 and Shanghai telegram 283, February 21, repeated Washington as 399¹⁴). In view this development, have informed UNRRA¹⁵ that there is no need for them to endeavor our behalf to re-establish contact Communist authorities through CLARA¹⁶ radio and assume this meets your approval. We will await word from Navy before sending Dodds north and will assume, unless instructed to contrary, that neither Embassy nor Department has objection to assignment of Dodds this mission. Latter incidentally willing to undertake it on basis conversations Navy in Tsingtao.

2. In above connection will appreciate view of Embassy and Department as to letting Dodds explore informally with Communist authorities ways and means of extending possible relief assistance, especially medical, to Communist-held areas which are out of active war zone. Suggest exploratory talks would, of course, be for information of China Relief Mission only and contingent upon whether Dodds found himself dealing with Communist civil or military authorities. Recognized here that any approach this nature must not be *quid pro quo*, and in fact kept deliberately separate until main negotiations con-

¹⁴ Neither printed.

¹⁵ United Nations Relief and Rehabilitation Administration.

¹⁶ Chinese Liberated Areas Relief Administration.

cluded. Dodds' mission might, however, present useful opportunity to explore attitude of Communist authorities on constructive relief assistance. Please instruct.

Sent Nanking as 326; repeated Department as 457, Tsingtao by courier as 46.

CABOT

893.48/3-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 1, 1948—4 p. m.

[Received 10:25 p. m.]

386. [To Shanghai:] As long as we continue to recognize and support Central Government of China we consider that it would be improper on our part to afford indirect assistance to Communist controlled regimes and areas by use of CRM (China Relief Mission) relief assistance. We are aware of the dire need for such assistance in many areas of North China controlled by the Communists and to which access for relief purposes might be available, but, for the time being at least, we feel that political considerations must outweigh humanitarian considerations (reference urtel 326, February 28, 3 p. m., repeated Department as 457).

As for the suggestion that Dodds engage in exploratory talks in this connection we are definitely opposed thereto even though they may be for information of CRM only. We consider that if Dodds is sent as an American emissary in connection with the release of the four captured marines he should go with the distinct understanding that he [is] to confine himself to that subject alone.

Sent Shanghai 163; repeated Department 386, Tsingtao by courier.

STUART

893.48/2-2848 : Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)

WASHINGTON, March 1, 1948—7 p. m.

377. Subject Embs concurrence, Dept has no objection Dodd's assignment as indicated para 1. Ref Contel 326 Feb 28 to Emb rptd Dept as 457. Re para 2, Dodds should be cautioned not to initiate exploration possible relief assistance Communist-held areas. (Sent Shanghai as 377, rptd Nanking as 326.) He could, of course, transmit Communist-initiated inquiries or proposals to US officials but, if

approached, should emphasize he is able to do so in private capacity only and should avoid giving impression through discussion Communist proposals that they will be accorded official consideration.

MARSHALL

[As a result of direct negotiations between Navy representatives and Chinese Communists at Haiyang, the four marines were released on April 1. A report prepared by Captain George W. Carrington, U. S. Marine Corps, transmitted by the Consul General at Tsingtao in his despatch No. 36, April 8, summarized the account given by the four captured marines concerning their treatment as follows: "The Marines were skylarking when they were captured. For a few days they received intensive questioning and were subject to quite bitter handling. Thereafter, they were left alone, except for the continuous barrage of propaganda to which they were subjected. Every attempt was made to sell them Communism and to discredit the United States, but the Marines themselves say that they were not badly treated." (893.00B/4-848)]

OPPOSITION BY THE UNITED STATES TO PROPOSALS FOR AN INTERNATIONAL POLICE FORCE FOR SHANG- HAI DURING TRANSITION PERIOD

124.018/11-948 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 9, 1948—6 p. m.

[Received November 9—7:56 a. m.]

2358. Following excerpts from November 7 *Tribune* (MOI¹) editorial on Badger's² remarks re use Marines in Shanghai is typical straw-grasping thinking now prevalent there:

"But there seems no reason why the Chinese Government should not, if the occasion arise, seek the cooperation of American Navy and Marines in preservation of law and order in this great city—one of world's largest—where so many international interests are represented. It might be well perhaps if Shanghai could be considered 'open city' and free from anxieties of war until such time as agreed arrangements could be made for its future role in Chinese economy."

Sent Department 2358, repeated Nanking 1786.

CABOT

893.00/11-1448 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 14, 1948—9 a. m.

[Received November 13—10:41 p. m.]

2400. Consulate General has been approached indirectly by two opposing camps on matter "internationalization" of Shanghai. First proposal came from local Kmt-Tu Yueh-sheng combination³ which gave assurances local situation could be kept under control and that Nanking Government would support plan. Opening of Yangtze to American "relief" shipping offered as inducement. "International" police force would be formed by revival Shanghai volunteers corps. No mention made employment American armed forces for maintenance order.

¹ Ministry of Information.

² Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific (ComNavWesPac).

³ Kmt meant the Kuomintang (Nationalist Party); Tu Yueh-sheng, or Tu Yung, was a prominent Chinese banker and businessman of Shanghai.

Second proposal allegedly came from Chang Po-chun's Hong Kong group allied with Democratic League. Representative reported to have come from Hong Kong with permission to speak in behalf Communists. Brought assurances American lives and property would be respected and protected in Communist takeover Shanghai. He was quoted as having stated Communists agreeable to "internationalization" providing all Kmt elements eliminated. Failed to mention whether Soviets also approached on "internationalization" plan.

Consulate General's reply was that we could certainly not accept plan as American Government had no imperialistic designs in China and could not waver from policy noninterference Chinese domestic issues.

Sent Department 2400, pouched Nanking.

CABOT

893.00/11-2948 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 29, 1948—6 p. m.

[Received November 29—8:04 a. m.]

2566. Mayor Wu⁴ today invited me to call (I thought urgently) and raised with me the procedure for transfer of power in Shanghai to Communists in event this became necessary.

He said that battle around Pengpu was undecided but that if it went against Nationalists this question would shortly arise. He pointed out that city officials, notably police officials, would not remain until Communists took over since they would face almost certain liquidation and that if they did not remain there would probably be a considerable period of chaos in the city dangerous to Americans and our interests. He mentioned having discussed this with John Keswick of Jardine, Matheson Co., a leading Britisher here. Mayor Wu suggested that such chaos might be avoided by international action. To this end he proposed on his personal responsibility that, through some international agreement, international forces be landed in Shanghai strictly for the interim period to assure order during the evacuation of the Nationalists and transfer of power to Communists. He made it clear he was not seeking unilateral action on our part. As his plan developed, it became clear he envisaged some sort of an appeal to the consular body to be followed by the landing of forces provided by English, French and possibly Soviets since these are only countries which would have forces available in this area.

⁴K. C. Wu, Mayor of Shanghai.

I said that I thought it very doubtful whether US would agree to land armed forces in Shanghai for this purpose and pointed out numerous practical difficulties which would arise, for example, to secure international agreement and in connection with timing. I said that I was slightly more optimistic that we would participate in some international action to secure an orderly transfer of power provided the use of our armed service was not involved. He insisted that armed forces would be necessary. I made it clear that I was speaking personally and said that all that I could do was to refer his proposal to Washington. Would appreciate early instructions.

Sent Nanking 1933, repeated Department 2566.

CABOT

893.00/12-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 1, 1948—1 p. m.

[Received December 1—1 : 32 a. m.]

2381. In view large number foreign nationals including concentration of foreign refugees from North and Central China,⁵ as well as considerable foreign business interests in Shanghai, Department may wish consider desirability of mobilization international force for Shanghai to act as police force in protecting foreign lives and property in event breakdown local authority preceding Communist occupation (Shanghai's 1933, November 29 to Nanking, repeated Department 2566). Such action would be taken only at invitation of National Government to consular corps Shanghai or other international body such as UN⁶ and only in concert with other interested powers. Should Mayor Wu's suggestion seem feasible, it might be suggested that he prevail on National Government to make request officially.

If military situation develops rapidly as now appears likely and Shanghai is seriously threatened, chaotic situation envisaged by Mayor may develop soon and ComNavWesPac may feel obliged to take unilateral action sending US forces ashore to protect American lives and assist in their emergency evacuation. In such circumstances it would, it seems to us, be more desirable if an international force went ashore for policing purposes by prearranged invitation of recognized government of China. Given international character of force envisaged, it is highly probable that Communist armies would accept such arrangement. Finally, we are of opinion that purely humanitarian reasons urgently dictate some such action as proposed above.

Sent Department 2381, repeated Shanghai 1184.

STUART

⁵ See pp. 947 ff.

⁶ United Nations.

893.01/12-248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 2, 1948—3 p. m.

[Received December 2—8 : 24 a. m.]

2610. British Ambassador⁷ has informed me of substance of conversation between Mayor Wu and Keswick (mytel 2566, Nov. 29). Wu told Keswick he wanted a foreign committee established to run Shanghai interregnum and to turn over Shanghai in orderly fashion to Communists. He suggested Keswick head this committee and expressed hope British would participate in sending international forces to guarantee order while foreign committee functioned. Ambassador said he informed Keswick he was strongly opposed to foreign committee administering Shanghai and hoped Chinese would form their own committee for this purpose. He said he was opposed to Keswick heading committee and to landing of British troops to preserve order. He informed Keswick however that he would be very happy to cooperate in international action backing up Chinese committee in every proper way. I informed Ambassador of my conversation with Wu and my answer to the slightly different proposals he made to me.

Ambassador wished us to go together to see Wu in order to get more precise information re Wu's ideas. I said I was not in position to do so since I was awaiting Department's instructions. I believe Ambassador is speaking to Wu himself alone.

Sent Department 2610, repeated Nanking 1971.

CABOT

393.1115/12-248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 2, 1948—4 p. m.

[Received December 2—9 : 34 a. m.]

2611. Local UN representative has asked me whether in event of serious disorders in Shanghai small international force including perhaps 10 Americans could be posted to guard local UN headquarters.

I am doubtful whether Navy can spare such men under present circumstances from complement required to effect emergency evacuation. Before taking up with Navy, would appreciate Department's instructions. We do not contemplate guarding all US Government property here under emergency conditions because physically unable to do so. Nevertheless I feel United Nations' request should be granted if it will not vitally affect our emergency evacuation plans.

⁷ Sir Ralph Stevenson.

UN representative also asked whether we could help in evacuation of UN foreign and Chinese personnel in event we have emergency evacuation of Americans. I replied Navy would try to do what it could for all occidentals but Americans must have priority and added that since we were not evacuating our own Consular Chinese staff we could scarcely evacuate UN Chinese staff. If Department wishes special treatment for UN foreign staff or has other special instructions, please advise.

Sent Department 2611, repeated Nanking 1972.

CABOT

93.00/11-2948 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai (Cabot)*⁸

WASHINGTON, December 2, 1948—6 p. m.

2077. Shanghai tel 2566 Nov 29 and Embtel 2381 Dec 1. We are disturbed by possible implications plan for mobilization international police force Shanghai which would include US forces. It is not clear whether plan envisages policing sectors, as was case in days Int Settlement, or policing entire city. If latter, would require considerable force and would involve related problem ensuring food supply for city, certain to be increased by possible influx refugees in event foreign forces to act as police, and in large degree whole machinery for administration. If policing confined to sectors, would presumably entail concentrations foreigners and would be certain to result in influx Chinese refugees in large numbers to areas under foreign police control, thus aggravating food, housing and other problems. If international police force, it would be necessary to include Soviets. Latter might refuse participate and label proceedings as western imperialistic plan assume control along pattern foreign concessions. Once police duties assumed by foreign forces, Comms might well be willing avoid Shanghai responsibilities for time being and leave in hands participating foreigners responsibility law and order and feeding city until Comms deemed time propitious take over. Comm underground which appears well organized might consider desirable utilize opportunity afforded by presence foreign forces create embroilment such forces in clashes and it seems apparent from statement urtel 2358 Nov 9 and from other indications that elements ChiGovt would welcome landing Marines and soldiers as furnishing possibility embroilment with Comms and might actually take steps effect incident which would be portrayed accordingly.

⁸ Repeated to the Ambassador in China as telegram No. 1756.

Could not ConGen refer in conversation with Mayor Wu to subject ComNavPortFac Shanghai tel Nov 3 (021445Z, NCR 7932) ⁹ as providing procedure in larger interests Chinese people. We note statement Shanghai tel 2580 Nov 30 ¹⁰ unrest expected accompany or follow turnover Shanghai area relatively unimportant consideration in minds US residents and Mayor Wu himself seems believe question chiefly one of police officials.

It is realized possible landing Marines protect US citizens and assist their evacuation would involve some danger but risks and implications seem less serious than would be involved in assumption responsibility for policing city.

In this connection Dept desires know details any emergency plans involving landing Marines Shanghai protect US citizens and assist evacuation with respect to timing, points concentration, means transportation, probable numbers Marines involved et cetera. We note statement Embtel 2381 Dec 1 (rptd Shanghai 1184) ComNavWesPac may feel obliged take "unilateral action" landing US forces protect US lives and assist emergency evacuation. It is Dept understanding that under ComNavWesPac Plan 103 this procedure would be followed only if time and circumstances did not permit communication with Ambassador or ConGen Shanghai.

LOVETT

393.1115/12-248: Telegram

The Acting Secretary of State to the Consul General at Shanghai (Cabot) ¹¹

WASHINGTON, December 4, 1948—11 a. m.

2104. Dept opinion not desirable provide American guard (urtel 2611 Dec 2 rptd Nanking 1972) as part international force for UN Hqrs, Shanghai. Appropriate assistance to UN foreign representatives should be provided under US Govt emergency plans to assist evacuation foreign nationals.

LOVETT

893.00/12-648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 6, 1948—6 p. m.

[Received December 7—12: 01 a. m.]

2433. Department understanding final sentence Deptel 1756, repeated Shanghai 2077, is correct. Phrase "unilateral action" used in Embtel 2381, December 2 [1] (repeated Shanghai 1184) referred

⁹ Not found in Department files.

¹⁰ *Post*, p. 900.

¹¹ Repeated to the Ambassador in China as telegram No. 1771.

to possible independent action by United States forces rather than in concert with other foreign powers.

We admit cogency of Department's arguments against international police force but thought suggestion was worth consideration.

Sent Department, repeated Shanghai 1219.

STUART

893.00/12-748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 7, 1948—6 p. m.

[Received December 7—7:23 a. m.]

2690. ConGen shares Dept's misgivings re use of international police force in Shanghai for interregnum period and I agree with Dept's thinking this connection. Navy is also decidedly unenthusiastic, estimating American forces required at minimum of 3,500 even if similar forces supplied by other nations.

British Ambassador has informed Mayor Wu that British will have nothing to do with international police force idea. British ConGen informs me that he is having some difficulty in preventing British local community from toying with idea of reviving volunteer corps to maintain order during interregnum. While sympathizing British community desire to preserve order and prevent damage to valuable British property in Shanghai, he is convinced this will result in serious embroilment.

American community would still like to see overall Marine protection in Shanghai but I have sharply discouraged such thoughts when they have been expressed.

Shanghai Power Co. officials deeply concerned at probable lack of protection for their principal plants. They predict our entire emergency plan will be seriously jeopardized if power failure occurs. They profess to believe power failure will occur in absence armed protection if general disorder prevalent.

Re Deptel 2077, December 2. I am by no means convinced any secret society (ComNavPortFac telegram 021445Z¹²) can maintain order in Shanghai during interregnum or that any such society has the strength to keep Communist armies out of Shanghai if they seek to enter. I feel however there are numerous possibilities for arrangements purely between Chinese which would result in peaceful turnover of city and hope that something of this nature will eventuate. We cannot of course count on this.

Senior Consul stated yesterday that he would call consular body together in certain eventualities which other members of body took to mean in event of disturbances or an imminent change in authority.

¹² Not found in Department files.

Several Consuls including myself made reservations with regard to any political action by consular body. If Dept could give me any guidance as to what, if any, action it feels I should favor in consular body in this matter, it would be very helpful. Questions may arise whether consular body is to act as broker, mediator or guarantor in turning over city. Whether it will give help (for example, we, through ECA ¹³) to interregnum committee or to evacuate threatened Nationalists, et cetera.

Sent Department 2690, repeated Nanking 2016.

CABOT

893.00/12-748 : Telegram

The Acting Secretary of State to the Consul General at Shanghai (Cabot) ¹⁴

WASHINGTON, December 9, 1948—7 p. m.

2152. Reurtel 2690 Dec 7. You should not participate in any action by consular body which would place this Govt or its representatives in role of guarantor or mediator in turn over of city to successor regime. You should avoid any participation in political action by consular body, such as assumption responsibility administration city. You may participate in any action based upon humanitarian non-political considerations with clear understanding your participation does not involve political commitments or involvement on your part or on part US Govt. Foregoing only general principles for your guidance since obviously impossible foretell what problems may arise in consular body.

Mr. Hoffman ¹⁵ who is en route Shanghai can acquaint you with discussions here on problem future ECA operations.

With respect evacuation threatened Nationalists urtel 2637 Dec 3,¹⁶ see Deptel 1617 Nov 15 to Emb ¹⁷ re granting asylum, which Emb instructed circularize consulates. General principles this tel applicable evacuation question. You should make clear to any Chinese who may inquire that US shipping facilities and places for concentration US nationals cannot be made available for Chinese nationals. However, as emergency measure under extraordinary circumstances and in your discretion, if Adm Badger or his representative concurs and space available, you may provide evacuation facilities those Chinese whose lives you have good reason believe would be seriously endangered in absence such assistance and whose *bona fides* such that assistance in evacuation would be in US interest.

LOVETT

¹³ Economic Cooperation Administration.

¹⁴ Repeated to the Ambassador in China as telegram No. 1797.

¹⁵ Paul Hoffman, Administrator, Economic Cooperation Administration.

¹⁶ *Post*, p. 913.

¹⁷ *Post*, p. 887.

FINANCIAL RELATIONS BETWEEN THE UNITED STATES
AND CHINA: ¹ INTEREST OF THE UNITED STATES IN
CHINESE EFFORTS TO MAINTAIN FINANCIAL STABIL-
ITY; REPRESENTATIONS REGARDING FIXING OF AN
EQUITABLE RATE OF EXCHANGE FOR EXPENDITURES
BY AMERICAN ARMED FORCES AND DIPLOMATIC
ESTABLISHMENT IN CHINA

893.5151/3-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1948—6 p. m.

[Received March 13—7: 31 a. m.]

464. Central Bank of China official informs us in confidence that Bank's US dollar reserves are "virtually exhausted" and only "some" gold and silver bullion reserves remain. Viewing recent sharp break in black market CNC ² rate and recent Government requests for advances US funds for petroleum and cotton purchases, we feel this report possibly true. However, we are not sufficiently well informed this subject to accept statement with confidence and recognize possibility it may be plan to increase pressure for early American financial assistance.

STUART

893.51/3-1948

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, March 19, 1948.

SIR: In pursuance of instructions from the Minister for Foreign Affairs,³ I have the honor to inform you that my Government has approved the contracting of a credit of four million two hundred forty-three thousand, seven hundred fifty dollars (\$4,243,750.00) from the Export-Import Bank of Washington for the purchase of ten (10) N-3-type vessels, namely *E. C. Gardner*, *Harry Barber*, *Francis Bursley*, *Nathaniel Ingersoll*, *Samuel G. Borland*, *Alfred M. Lunt*, *Edward Nichols*, *William F. Howes*, *William S. Colley*, and *Benjamin M. Melcher*, and for the movement of the said vessels to China. The

¹ Continued from *Foreign Relations*, 1947, vol. VII, pp. 1030-1241.

² Chinese national currency.

³ Wang Shih-chieh.

terms are to provide for the payment of the principal in forty semi-annual installments beginning from October 1, 1948, with interest at the rate of three and one-half per cent per annum, payable semi-annually.

The Universal Trading Corporation, a Chinese Government agency, has been authorized to execute on behalf of my Government a credit agreement containing such other terms and conditions as may be mutually agreed upon and to execute and deliver to the Export-Import Bank promissory notes for advances against such credit and mortgages or hypothecations, in such form and with such terms and conditions as the Bank may require, of the ten (10) vessels as security for the said credit. The Universal Trading Corporation has been further authorized to do any or all other acts in connection with the effecting of the said credit and the carrying out of the terms of the Agreement.

I wish also to inform you that the Universal Trading Corporation has authorized its Director and Vice President, Mr. Sz-Dah Ren, to sign the agreement and other necessary documents. The agreement, note and mortgages and all other acts performed pursuant thereto by the above-designated representative will be valid and binding on the Republic of China and each of the said mortgages will become a first lien, in accordance with its terms, upon the vessel to which it relates.

I should be greatly obliged if you would be good enough to cause the above information to be transmitted to the appropriate authorities.⁴

Accept [etc.]

V. K. WELLINGTON KOO

893.5151/3-1348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 25, 1948—5 p. m.

447. Central Bank China balances at New York Federal [Reserve Bank] now quite low (Embtel 464 Mar 13) but Central Bank has other balances and may borrow from other Government banks as in repayment US\$13 million to Exim Bank Feb. 7 for which dollars made available [by] Bank of China. Confidential data provided by Pei Tsuyee⁵ showed net dollar assets of Chinese Govt banks at US\$176 million on Dec 31 compared with reported official short term balances of US\$137.8 million same date. Both figures exclude surplus property account at U. S. Treasury and gold in Shanghai but include Central Bank gold in U. S. Difference believed mainly dollar securities owned by Bank of China plus Central Bank vault cash.

⁴ This communication was acknowledged by the Acting Secretary of State in his note of April 7, not printed.

⁵ Chairman of the Chinese Technical Mission in Washington.

Since preliminary figures for Jan 31 indicate decline of about US\$18 million, believe net dollar assets Govt bank sufficient for near-term needs. Will ask Pei later information.

MARSHALL

893.5151/3-2748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, March 27, 1948.

[Received March 27—4:42 a. m.]

702. For Treasury, State, Commerce from Casaday.⁶ Following is simplified text Reuters despatch datelined Nanking March 26, carried prominently March 27 in English and Chinese language Shanghai press. Details unconfirmable in Shanghai today. Will be forwarded when ascertained.

"State Council today acted in 2-way move to halt inflation and stabilize prices by authorizing Central Bank of China to issue unspecified amount short-term treasury notes as means absorbing idle capital and at same time approving measures for issuing stock shares on Government-owned assets⁷ estimated at US \$400,000,000 to back currency. Treasury notes, which will be issued at beginning April, will carry 5 percent rate interest and be redeemable within varying periods of 1, 2 and 3 months.

Notes will bear face values of CN dollars 10 million, CN dollars 20 million, CN dollars 50 million, CN dollars 100 million and CN dollars 1 billion. State-owned assets on which stock shares will be issued are held by China Merchants Steam Navigation Company, China Textile Industries Limited, National Resources Commission, together with items among enemy and puppet properties as well as Japanese reparations estimated at value of US dollars 400 million. Assets to [be] assessed. These assets will be assessed by Ministries of Communications and Economic Affairs, and will be entered in Central Bank of China's account before shares are issued. Stock shares will be sold exclusively to private individuals and private business corporations. No Government-owned enterprises will be allowed any of these shares. Each unit, after it has sold more than 50 percent of shares, may proceed call meeting stockholders and elect board trustees organize a corporation with the country's company laws."

Repeated Nanking 491. [Casaday.]

CABOT

⁶ Lauren W. Casaday, Assistant Treasury Representative in China.

⁷ For previous correspondence on this subject, see *Foreign Relations*, 1947, vol. VII, pp. 1369-1383, *passim*.

893.5151/4-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 2, 1948—3 p. m.

[Received April 2—12:09 p. m.]

600. Finance Minister ⁸ confirms report of plan outlined paragraphs 2 and 3 Shanghai ConGentel to Department 702, March 27, repeated Embassy as 491, for issuance short-term Treasury notes. Details, however, still being discussed in Executive Yuan.

Regarding issuance stock shares on [*in?*] Chinese Government enterprises listed paragraph 4 reference telegram, Dr. Wong Wen-hao, chairman of NRC,⁹ states that agreement reached in concerned Chinese Government circles to permit issuance up to 50 percent of estimated value such assets (which would permit Government to retain control of enterprises) with details especially with respect to assessment of properties yet to be worked out. Wong frankly admitted he was not certain that this procedure to inspire public confidence in Chinese currency would be efficacious. He said, however, step designed in part make favorable impression on US Government order demonstrate Chinese Government's desire to utilize its own assets as means to inspire confidence in currency and to withdraw large amounts of speculative capital from circulation.

Embassy will comment when further details available.

Sent Department as 600; repeated Shanghai 235.

STUART

893.51/4-1048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, April 10, 1948—2 p. m.

[Received April 10—5:32 a. m.]

820. For Treasury, State, Commerce from Casaday. Generalissimo's ¹⁰ "state of nation" address yesterday 9th (which understood being fully reported by Embassy ¹¹) featured in Shanghai press this morning. Generalissimo's remarks on financial position somewhat differently reported by UP and Reuters. Both accounts agree speech stated total CNC note circulation end March was 70 trillion, that Government gold and silver in hand Central Bank amounts US \$110,000,000 and that total CNC note issue could be redeemed for

⁸ O. K. Yui.

⁹ National Resources Commission.

¹⁰ Chiang Kai-shek, President of the National Government of the Republic of China; inaugurated as President of the Republic of China on May 20, 1948.

¹¹ See telegram No. 638, April 9, 4 p. m., vol. VII, p. 187.

US \$110,000,000 at approximately current black market rate of 600,000 to 1. Apparently no reference made in speech to rate of increase in note issue, which of course has been steadily increasing past 2 years and may now be estimated at about 30 percent per month.

UP account reports speech to have stated that besides gold and silver, other assets include "additional US \$290,000,000 in other Government assets including enemy property and Jap reparations and additional gold reserves of US \$180,000,000". UP despatch on financial assets concludes: "The Generalissimo said these figures taken together with the American loan¹² totalled \$1,000,000,000 in gold reserve which is 2 and 1/2 times the amount Government has ever had before".

Reuters despatch reads in part as follows on financial aspects:

"President Chiang said, 'the economic foundation is not only not shattered but is even more secure than last year', he said, adding that gold and silver reserves in the Central Bank are valued at US \$110,000,000, while China had a reserve US \$180,000,000 for foreign exchange. This makes a total reserve of US \$290,000,000.

In addition, Government assets totalling US \$400,000,000 can be used as currency backing. He attributed rising prices to Communist propaganda and not economic reasons and added that China's holdings of US \$1,000,000,000 can now be used as security against the note issue".

[Casaday]

CABOT

893.5151/5-1248: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, May 12, 1948—noon.

[Received May 12—9:22 a. m.]

1044. [To] ECA¹³ 8. Treasury and State from Casaday. Central Bank official (Cyril Rogers¹⁴) in private conversation Saturday expressed serious concern re general economic-financial position and considerable pessimism re aid program in relation thereto.

He said "conditions have never been so bad" as now (a) with official foreign exchange completely exhausted (except for working balances) and Central Bank borrowing foreign exchange from Bank of China for past 6 weeks. In this connection he stated that American practice of including foreign exchange assets of so-called Government banks in estimates of China's "official" exchange resources, although

¹² Presumably assistance to be given China under the China Aid Act of 1948, approved April 3; 62 Stat. 158. For correspondence on this subject, see pp. 73 ff.

¹³ Economic Cooperation Administration.

¹⁴ British adviser to the Central Bank of China.

natural in view general practice other countries, is of dubious justification in China's case. He deplored failure Chinese Government mobilize exchange resources these banks and termed "disgraceful" present necessity borrowing from them; (b) with April increase note issue 40% and budgetary situation "completely out of hand" (although no further figures given); and (c) with "shocking" ineptitude, indifference, fear and general low morale in high Government circles, all of which he says have become much worse past 3 months.

He said facts of rapidly deteriorating situation repeatedly presented to Governor ¹⁵ with request Pei be informed while still in Washington but this never done except in personal letter from this official to Pei just before Pei's departure from Washington and that consequently this official fears seriousness situation not fully realized in either American or Chinese Government circles. He said no evidence of really constructive thinking in Chinese Government as to best utilization American aid (except various "plans" proposed for sake of appearances) and deplored fact that Chinese Government through Pei had not been ready with detailed operating proposals by now. He emphasized this not Pei's fault, but he fears that aid will not now become effective for two or three months and that this delay plus possible unwise administration may be "disastrous". He strongly urged tough American policy and emphasized need for this policy to be tough in financial sense as well as in mere administrative.

Specifically this official very dubious of wisdom of 60 million for reconstruction projects and of rural reconstruction program. He says this not the time to "reconstruct" in China. He urges most careful selection and limitation of projects with view to quick productivity. He hoped no technicians in industrial, agricultural and transportation projects will have final authority as to what projects shall be chosen but a tough-minded financial man preferably from US Treasury or Federal Reserve.

This official stresses absolute necessity of tightening money and regrets difficulty doing this under aid program. He says monthly rate of withdrawing CNC from circulation under present aid plans will be only about half rate at which new currency being pumped into economy quite aside from uses to which CNC proceeds of sales of aid goods will be put. He wishes it were possible dump large quantities aid goods on market at once withdrawing equivalent CNC and then keeping that CNC from flowing back into economy. He suggests that if price and black market stability could be achieved for even 2 or 3 months, effect on confidence and public morale might be sufficient

¹⁵ Chang Kia-ngau, Governor of the Central Bank of China.

reduce hoarding and speculation and stimulate natural processes economic recovery. He admits difficulty achieving this by any means so long as military and other Government departments have carte blanche access to Government exchequer and the printing presses but feels aid program will not even make deflationary dent on present situation if goods dribbled slowly into economy over 12 months and with considerable portion used in directions where effect will be directly inflationary not deflationary.

This official evinced some sense of frustration in getting sufficient support for his views in Chinese Government and indicated his willingness discuss problems from time to time privately with US officials if matter kept confidential. This will be followed up as occasion offers.

Addendum: Subsequently in separate conversation with Agricultural Attaché¹⁶ K. P. Chen¹⁷ expressed similar views and in some respect more strongly. Stressed need for immediate restoration of confidence and stabilizing of speculative spiral in next 60 days. Much stability essential before important reconstruction projects can be successfully undertaken. Stressed need for dovetailing reconstruction projects with measures to retard present rapidly accelerating rate of inflation.

Sent Department 1044; pouched Nanking 814. [Casaday.]

CABOT

893.5151/6-2648 : Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, June 26, 1948—1 p. m.

[Received June 26—2:07 a. m.]

1436. ReContel 1430, June 25,¹⁸ repeated Nanking as 1170. Morning press reported chaotic conditions prevailed in all commodity markets yesterday with prices recording up to 50% increases. Black market quotation US dollars at 10 a. m. today started at 4,700,000, an increase over yesterday's closing quotation by 700,000. Shanghai is rumor-mad, according press. One rumor reported ConGen this morning Generalissimo being detained in north.

Following description situation yesterday given by *China Daily Tribune*: "As if some imminent danger had been in sight, as if radical change had taken place, as if pillars of nations had fallen down into

¹⁶ Owen L. Dawson.

¹⁷ Chairman of the Board of Directors of the Shanghai Commercial and Savings Bank.

¹⁸ Not printed: it reported that the exchange rate in Shanghai had opened 20% higher on June 25 than on the previous day (893.5151/6-2548).

pieces, as if this part of world had alone come to its 'doomsday', whole city was almost reduced to doubt, despair, fear, terror, and, in one word, confusion."

Garrison commander Hsuan Tieh-wu at press conference yesterday reported by *Tribune* to have frankly admitted economic section garrison headquarters and economic section Shanghai police not sufficient check economic situation into which city being thrown and total economic collapse might face city unless most energetic preventive measures taken in time. He asked for combined efforts Central Government, local authorities and general public "to face situation squarely" and seek settlement current debacle. General also reported to have said stabilization economic situation must be basically effected through more rational distribution social wealth. *China Press* repeated [*reported*] him as saying he has made recommendation Nanking authorities [that] administration provinces south of Yangtze, educational and cultural organizations and economic affairs should be placed under control of military headquarters.

Pouched Nanking 1174.

PILCHER

893.61321/7-748

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] July 7, 1948.

Participants: Mr. Pei Tsu-yi, Chief of Chinese Technical Mission
Mr. Butterworth, Director for Far Eastern Affairs
Mr. Sprouse, Chief of Division of Chinese Affairs

Mr. Pei Tsu-yi called by appointment upon Mr. Butterworth this morning to discuss the possibility of an extension of the date of repayment of Chinese obligations under the Export-Import Bank cotton credit of \$33 million.¹⁹

Mr. Pei stated that he had been requested by Mr. O. K. Yui, Minister of Finance,²⁰ to explore here the possibility of such extension. He described the conversation that he had had with Mr. Clarence Gauss, Export-Import Bank, on this subject. Mr. Pei said that Mr. Gauss had given him no encouragement and had pointed out how serious it would be if the Chinese Government were to be placed in a position of defaulting if it failed to meet its payments under this credit. Mr. Pei explained that payments were due beginning with July and extend-

¹⁹ See Department's telegram No. 493, March 19, 1946, 7 p. m., *Foreign Relations*, 1946, vol. x, p. 967.

²⁰ Mr. Yui was appointed Governor of the Central Bank of China on May 21 and was no longer Chinese Minister of Finance.

ing over a period until the end of the year, a \$5 million payment being due in July, \$10 million being due in August, and the other payments representing a total of \$3 or \$4 million per month. He further stated that in view of the serious foreign exchange position of the Chinese Government, the latter would find it difficult to meet these payments, particularly during the next two months before the Aid program for China should get completely under way. Mr. Pei said that he had suggested to Mr. Gauss the possibility of the Chinese concluding a sales contract for the export of tin to the U. S., which would logically fall within the provision of the Economic Cooperation Act ²¹ with respect to the development of strategic materials and the export of such materials to the U. S. Mr. Gauss questioned him regarding the purpose of such an arrangement, pointing out that if it were for the purpose of meeting Chinese obligations under the cotton credits he could give no encouragement. Mr. Pei replied that such an arrangement could be made for the purpose of providing grounds for extension of the dates of Chinese payments.

Mr. Pei then asked Mr. Butterworth if he had any ideas on this subject which would meet the Chinese difficulties. Mr. Butterworth described to him the note which had recently been sent to the Chinese Ambassador ²² in reply to the Chinese request ²³ for a postponement of payment of Chinese obligations totalling \$2.8 or \$2.9 million under lend-lease arrangements. Mr. Butterworth pointed out that the Department's reply was based on two considerations: 1) In presenting the justification for the China Aid Program the Department had taken into consideration, in connection with the Chinese balance of payments position, Chinese Government obligations to U. S. Government agencies; and 2) the Congress had clearly indicated in its consideration of the various foreign aid programs the necessity of foreign governments meeting such obligations to the U. S. Government. The total amount of aid made available to foreign governments under the Foreign Assistance Act of 1948 ²¹ had made provision for sufficient aid to enable these countries to meet such obligations. The Department had therefore found it impossible to accede to the Chinese Ambassador's request. These same considerations would apply to the \$33 million cotton credits.

Mr. Butterworth informed Mr. Pei that there will, however, be no objection to his exploring with ECA, the Export-Import Bank and the Treasury Department, as the stockpiling agency, the possibility of an arrangement for the export of tin to the United States as described by Mr. Pei.

²¹ Approved April 3, 1948; 62 Stat. 137.

²² Dated July 1, p. 696.

²³ Dated June 28, p. 695.

893.5151/7-1248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 12, 1948—1 p. m.

[Received July 12—4:02 a. m.]

1552. For Treasury and State from Casaday. Reourtel 1044, May 12, repeated Nanking 814. Cyril Rogers (who says K. P. Chen and Li Ming²⁴ concur, although this concurrence rather late in developing) again expressed utmost pessimism and downright alarm re general financial situation. Rogers believes it is "50-50 toss-up" whether there will be complete collapse of *fapi* during next 3 to 6 months despite American aid program. He assumes such collapse would bring with it virtual disintegration Nanking regime and high probability of "shooting in streets" with prominent Government officials and all foreigners as most popular targets and scapegoats.

Rogers fervently repeated his hope that projects under aid program be cut to minimum and CNC proceeds from sales aid goods be sterilized maximum possible extent.

Although Rogers among those who denied in May (see mytels to Embassy 866 and 872, May 18, and Embtel 948, May 26²⁵) that Chinese Government was seriously considering imminent conversion of currency, he now states that realization of seriousness of situation has finally seeped up to highest levels with result that near panic reigns on Olympus and Generalissimo is said to be seriously considering currency conversion before end 1948 with or without United States backing.

This possibility greatly adds to alarm already felt by Rogers and others who believe such plan could not be kept secret in China with result that *fapi* would completely blow up prior to conversion and that as soon as it became known (as it must immediately) that new currency also had no backing, it too would blow up within 3 months. And, as Rogers put it, "currency conversion is something you can't try two or three times, it's got to be made to work the first time".

Generalissimo and Prime Minister,²⁶ however, seem to have naive belief that because it took 11 years for *fapi* to reach its present plight a new currency issued at say 3 or 4 or 5 to the United States dollar would take at least another 5 or 6 years to travel the same course, even though unbacked.

Asked whether there is sufficient new currency on hand to effect a conversion, Rogers said yes, that "Sun" currency printed at various times beginning as far back as when Kung²⁷ was Finance Minister

²⁴ President of the Chekiang Industrial Bank.

²⁵ None printed.

²⁶ Wong Wen-hao.

²⁷ H. H. Kung was Chinese Minister of Finance from 1933 to 1944.

is stored in Shanghai (Embassy see last paragraph mytel 866) and would be quantitatively sufficient in aggregate for conversion but not certain that enough of various denominations. He said this point and "thousand other details" likely to be overlooked until last minute if Nanking typically "goes off half cocked" on this enterprise. In regard reference telegrams, however, Rogers repeated that he knows of no recent printings of small denomination notes in Rangoon or elsewhere. Present stock of "Sun" currency has been on hand for at least 18 or 20 months.

Rogers asked whether there is any chance of getting stabilization aid (which he says should be recognized as straight political loan or grant) from United States during 1948. He feels Washington does not fully appreciate seriousness Chinese situation, partly because Pei not given sufficient facts by Chinese Government nor instructions to present strong case. Rogers seeking permission Chinese Government to proceed Washington ostensibly confer with Pei but actually to talk straight from shoulder to key United States personnel and he doubts he will get such permission, however.

Assuming there is no chance of stabilization loan or grant from United States during 1948, Rogers is advising Chinese Government to hang on for dear life until new Congress in January 1949, trying best to make aid program do as much good and little harm as possible and then (if Chinese Government still here) to bend every effort obtain immediate stabilization loan. He admits this advice hard to give and still harder to take now that Nanking seems finally to realize regime has only about 50-50 chance surviving next 6 months.

Sent Department 1552, repeated Nanking 1260. [Casaday.]

CABOT

893.5151/7-1248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 12, 1948—6 p. m.

[Received July 12—10 : 04 a. m.]

1559. For Treasury and State from Casaday. Reourtel 1552, July 12, repeated Nanking 1260. Chinese official (who wants this message held in highest secrecy as any Chinese hearing of it would likely be able identify its source) says he was member committee of three asked last week by Prime Minister, allegedly with Generalissimo's concurrence, draw up technical details for immediate currency conversion. Committee made stab at task but appended notations as to difficulties and dangers attempting conversion at this time.

Although committee members not present when report presented to Generalissimo, latter apparently took note of committee's critical reservations (and presumably also Rogers' strongly worded advice which must have reached him about same time, see reference telegram) and is said to have postponed idea of currency conversion for further consideration but with comment to effect that "something may have to be done soon nevertheless."

Aforesaid Chinese official (my informant), realizing precariousness present situation and that events may force Generalissimo's hand and precipitate ill-advised action, thereupon presented concurrently to Governor Central Bank and Minister Finance ²⁸ plan he has long had in mind for temporary but substantial contracting of visiting [*existing*] currency and consequent easing of present hyper-inflationary pressure. Plan proposes immediate forceful seizure by Government of all godowns and other inventory stocks in Shanghai, immediate dumping on market of 25 percent of seized goods, proceeds to be turned over to Issue Department of Central Bank for use in meeting regular demands thereon. Plan proposes goods so seized and sold be considered capital levy upon owners without recompense or as forced loan to be repaid by Government at some indefinite future. Informant says he has figures showing probable extent and duration of deflation which scheme would produce and that it would give "definite relief and breathing spell of at least 3 months."

Plan said strongly favored by Finance Minister who congratulated author personally and said he would push it with Prime Minister and Generalissimo. But O. K. Yui (who my informant says more closely tied in with Shanghai business interests) equally strongly condemned plan and personally "bawled out" its author.

No report yet as to attitude of Prime Minister and Generalissimo. Sent Department 1559, repeated Nanking as 1264. [Casaday.]

CABOT

893.51/7-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 27, 1948—6 p. m.

[Received 10:39 p. m.]

1373. Inflation continues apace with no sign development of moderating conditions or ability Government to take Draconian measures otherwise imperative. As reported by Shanghai, all signs point to fact dollar reserves have been exhausted. After initial export [*spurt*

²⁸ Wang Yun-wu.

of exports]²⁹ ore [in] June resulting from exchange surrender Ctf³⁰ plan for which much was hoped, accelerating rise of US dollar in black market with Ctf's failing to keep pace has resulted in loss once more of incentive exporters to export. Open market rate plus value Ctf's now only half black market dollar rate. Evidence increasing that paralyzing effect of inflation, now approaching galloping phase, has more than counterbalanced speculative but nevertheless stimulating influence of uninterrupted price rise. Inflation-caused [slash] in civil airline schedules, universally visible evidence of commodity hoarding, and increased frequency on more hectic days of general boarding up of shops are cases in point. So long as civil war continues and Government fails to adopt logical economic measures and to demonstrate ability to enforce them, the end of this devastating spiral is not yet in sight.

Sent Department 1373; repeated Shanghai 657.

STUART

893.5151/7-2948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 29, 1948.

[Received July 30—3:10 a. m.]

1387. At July 29 press conference Director Chinese Government Information Office³¹ replied to questions by correspondents re new measures announced July 28 on relaxation Government control over privately-owned foreign exchange assets by means written statement briefed as follows:

Main object new regulations step-up production in China and utilize idle capital. Also to encourage interest of overseas Chinese in industrial development at home. During period when foreign exchange under control, adequate supplies for maintenance our industries persistent problem. Regulations have following principal objectives: (1) To promote productive enterprises actually needed in China by facilitating importation machinery and other equipment now unobtainable this country; (2) to meet requirements for raw materials of existing productive enterprises by permitting use of foreign funds of Chinese nationals for purchase commodities. This to be accomplished [by] (a) stabilization of value of money invested in such productive enterprises and (b) supplementing present requirements of productive enterprises through importation of materials and commodities required; (3) to halt import of highly profitable luxuries which have hitherto been brought in by unscrupulous traders under pretense of being funds of overseas Chinese.

²⁹ Bracketed insertions based on Embassy file copy of telegram.

³⁰ Certificate.

³¹ Hollington K. Tong.

New program devised meet actual present needs. Import procedures simple as possible order assure maximum results. Authorities concerned will extend every possible facility to applicant importers. New undertaking designed supplement American aid program; essentially a self-help program. American aid to China, while generously large, is, of course, insufficient to meet all China's economic needs. China deeply grateful for what US doing but acutely conscious of her duty to utilize all available Chinese resources in present economic situation. Hence expressly hoped new policy will induce sizeable investments of foreign funds of Chinese nationals in productive enterprises in China.

Full texts of new measures and comment being sent Department by Consulate General Shanghai.³²

Department please refer to ECA.

Sent Department 1387; repeated Shanghai 668.

STUART

893.5151/7-3048

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] July 30, 1948.

The following paragraph of a letter from Livingston T. Merchant, Economic Counselor of the Embassy at Nanking, puts in concise form the inflationary situation which has been the subject of numerous telegrams and despatches:

"One last note on inflation. There is no doubt in my mind that the Central Bank is absolutely out of dollar exchange. The inflation is now taking on an explosive form with the first signs beginning to appear of the actual physical slowdown of the conduct of business which characterizes the final stages. For example, this morning CNAC³³ announced the suspension of all flights on the Shanghai-Nanking shuttle simply because official approval of rate increases lags too far behind the almost daily rises in the cost of aviation gas. More and more stores in Shanghai and other cities are putting up their shutters rather than risk holding *fapi* even a few hours. The rate went over eight million in Shanghai yesterday and until this morning the largest denomination bill in circulation was worth only slightly over one cent gold. I must confess, with the war continuing I would be myself at wits' end to know what durable constructive measures could be taken. Like all things in China, however, I imagine it will take longer to reach the end of the road than one might suppose."

W. W[ALTON] B[UTTERWORTH]

³² Airgram No. A-690, July 30, and telegram No. 1388, July 29, 6 p. m., neither printed.

³³ China National Aviation Corporation.

893.51/8-348

*Memorandum of Telephone Conversation, by Mr. Robert N. Magill
of the Division of Chinese Affairs*

[WASHINGTON,] August 3, 1948.

Mr. Doherty³⁴ of FN called by telephone today to say that the Federal Reserve Board had inquired on behalf of the New York Federal Reserve Bank as to whether the Department had any objection to that Bank's compliance with a request from the Central Bank of China for a three months' extension of its ten million dollar gold-secured loan. This loan has been in effect for three months, bears interest at 11½ percent, and is secured by gold holdings of the Central Bank on deposit with the New York Federal Reserve. My impression is that the loan is being used primarily to finance cotton imports.

Mr. Doherty and I agreed that China's use of its own financial resources, while of direct interest to the United States, should not, in general, be subject to United States approval. In this particular case the transaction has a quasi-private character and we could think of no overriding reason for taking exception to the proposed extension of the loan. I decided to speak for CA³⁵ on this matter since an answer was desired immediately and since I was confident that there would be no political grounds for objection.

893.515/8-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 3, 1948—6 p. m.

[Received August 3—1:49 p. m.]

1426. Prime Minister Wong Wen-hao told me August 3 in strictest confidence that Executive Yuan is currently and urgently considering currency reform measures decided upon at top level conference last week with Generalissimo in Mokanshan. Prime Minister expressed his hope and expectation of public announcement within a week or 10 days.

Prime Minister stated Cabinet's calculation that at black market rates total CNC now in circulation has value of only US dollars 30 million. As backing he stated Central Bank holds 2,600,000 ounces of gold and 50 million pieces of silver of various weights. He added Central Bank has no foreign exchange holdings but that hard currency holdings of Bank of China and other Government banks added

³⁴ Edward W. Doherty, Assistant Chief of the Division of Financial Affairs.

³⁵ Division of Chinese Affairs.

to gold and silver given above provides total bullion and foreign exchange assets available for backing new currency in a total amount slightly under US dollars 200 million.

Plan envisages issuance new notes in large denominations and calling [in?] outstanding CNC. New issue would be under control of a commission established for this purpose, membership of which would include outstanding private individuals. Commission would observe (but apparently not control) emission new currency and make full reports to public each month.

As directly related measure Prime Minister told me Pei Tsu-yee is negotiating in Washington for 10-year loan of US dollars 300 million from US Government, proceeds of which, if secured, would be used to purchase silver for minting of coinage for general circulation. Proposed backing for this loan stated to be pledging export sales proceeds of Chinese tin, tungsten and antimony which Prime Minister estimates at present prices and present archaic mining and transport methods should produce US dollars 30 million per annum.

In conclusion, Prime Minister admitted foregoing measures do not affect directly central budgetary problem resulting from financing civil war, but he expressed to me his belief that they might arrest the rise in prices and "carry the country" for 1 or 2 years.

Sent Department 1426, repeated Shanghai 690 for Cabot and Casaday.

STUART

893.51/8-348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 5, 1948—7 p. m.

1132. Dept appreciated receiving info contained urtel 1426 Aug 3 and will shortly give you benefit of its view on proposals.³⁶

However Dept wishes immediately to advise you that info given you by Wong Wen-hao as set forth in fourth para urtel under reference is not correct. No negotiations are taking place in Wash for loan of \$300 million to the ChiGovt for currency stabilization or any other purpose. Dept does not understand how Tsu-yi Pei's negotiation with Eximbank with view to obtaining postponement of unpaid two-thirds of \$33 million cotton loan, payments for which are shortly falling due, and his efforts in connection with the subject matter of ECATO 186, July 27,³⁷ could result in distortion of this extent and nature.

³⁶ No reply found in Department files.

³⁷ Not found in Department files; ECATO is symbol used to designate ECA headquarters messages to field establishments.

Emb should seek early occasion to clarify this matter in mind of Wong Wen-hao for it is important that no such proposal be looked to by the Chinese as a possible buttress to any currency action which they may choose to take.

When Tsu-yi Pei was informally queried about this matter last evening he stated categorically that he had no instruction to [*for?*] negotiation any such loan. For Embs own info only, Tsu-yi Pei doubtless pointed out in one of his telegrams that if a sales contract for the 3 metals listed could be arranged with the Bureau of Federal Supply, it might at some future date form the security basis for Eximbank loan similar to prewar commodity credits of Eximbank. However he stated to Dept in strictest confidence that he had never mentioned in his tels any specific amount, time duration or end uses for any new loan.

MARSHALL

893.51/8-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 11, 1948—6 p. m.

[Received August 12—6:33 a. m.]

1488. We communicated to Wong Wen-hao August 11 gist of third paragraph Deptel 1132, August 5 (see also Embtel 1426, August 3). Prime Minister stated instructions of Pei Tsu-yee re attempt to negotiate loan under reference had not been transmitted to him and project is still in Cabinet discussion stage. Pei had, however, been instructed by Prime Minister to explore informally in Washington probable reaction to long-term US purchase contract for strategic materials which would provide security for loan covering modern mining machinery et cetera. According to Prime Minister, Pei had reported that informal discussions this subject with unidentified committee in Washington had been encouraging. In any event Wong Wen-hao is not now under any misapprehension in this matter.

In reply to question Prime Minister stated that projected economic and currency measures will probably be made public in next few days. In marked contrast to his customary buoyancy, Prime Minister discussed present situation in gloomy terms. He admitted currency reform measures contemplated do not touch root of matter which is massive budget imbalance caused by civil war expenditures. He expressed hope, however, rate of inflation might thereby be braked and period of some months relative stability of prices secured. At end he said he trusted Secretary fully appreciated seriousness of China's situation with bankruptcy apparently only few months ahead.

STUART

811.516 Export-Import Bank/8-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 12, 1948—3 p. m.

[Received August 12—4 : 36 a. m.]

1491. Embassy received late August 11, third person note from Foreign Office dated August 8, informing Embassy of dispatch of Foreign Office cable to Chinese Ambassador in Washington re extension \$33,000,000 Eximbank cotton credit. Verbatim text Foreign Office cable follows which Foreign Office requests Department transmit immediately to Eximbank.

"The Executive Yuan authorizes Dr. Wellington Koo, Chinese Ambassador to the United States, to assent on behalf of the Government of the Republic of China to an extension of payment of principal and interest on the drafts drawn on and accepted by the Bank of China under line of credit of \$33,000,000 established by the Export and Import Bank in favor of the Bank of China on March 14, 1946 to finance the export of cotton to China and unconditionally guaranteed by the Government of the Republic of China. Such extension of payment may be agreed to by the New York branch of the Bank of China. Ambassador Koo is further authorized and directed to execute guaranty in the name of and on behalf of the Government of the Republic of China on such obligation as may be given to evidence the extended maturities of principal and interest of the cotton drafts."

STUART

811.516 Export-Import Bank/8-1248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 13, 1948—7 p. m.

1178. On Aug 11 Board Directors Eximbank considered request Chinese Amb that remaining payments principal \$33 million cotton credit be postponed beginning Aug 15 for period 6 months interest payments to continue as heretofore (urtel 1491 Aug 12). After considerable discussions with representatives Bank China Eximbank reached agreement with reps and approved following arrangement which considered best solution of problem presented by China's inability to meet outstanding maturities estimated about \$21 million: (1) Eximbank to recall before Aug 15 cotton drafts now held by various commercial banks (2) Drafts falling due on or before Aug 14 to be paid in full by Bank China NY agency together with accrued interest (3) Interest accrued on drafts maturing on or after Aug 15 to be paid in full by NY agency Bank China on that date and (4) Maturities of principal of drafts outstanding due on or after Aug 15 to be extended and adjusted through supplemental agreement which

will provide for payment thereof in approx equal monthly installments from Feb 15 to Oct 15 1949 with interest at 2½ percent.

No publicity is to be given foregoing.

Following for secret info Emb and Treas Rep as minimum condition of and as consideration for extension maturity cotton drafts Bank China NY agency to file with Eximbank a letter to Irving Trust Co instructing latter to sell securities Bank China pledged to and held by it and to pay to Eximbank net proceeds such sale over and above amount then owing to Irving Trust under its overdraft with Bank China it being understood that Bank China shall on last working day each month submit to Eximbank statement any change or changes in securities held by Irving Trust since date last previous statement together with amount indebtedness to Irving Trust then secured by them and that Eximbank will not present letter of authorization and direction to Irving unless default shall have occurred in payments on cotton drafts as readjusted or certain other contingencies such as receivership shall have occurred.

Rep Bank China informed Eximbank that securities in custody Irving Trust amount to \$42 million and are pledged as security for overdraft privilege of \$25 million of which about \$14 million was being used as of Jul 21.

MARSHALL

103.ECA/8-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 14, 1948—2 p. m.

[Received August 14—4: 50 a. m.]

1514. Merchant was invited by Gilpatric,³⁸ Griffin³⁹ and Sumner⁴⁰ of ECA to attend meeting August 13 with Finance Minister Wang Yun-wu. ECA had arranged conference to query Finance Minister regarding economic and fiscal program widely touted as imminent by press. Existence such program, admittedly conceived in principle at Mokanshan conference, has been closely guarded secret of Prime Minister and exclusive handful his Cabinet.

Finance Minister Wang confirmed existence integrated program and left inference, without specifying, that its promulgation was imminent. Wang described the program in vague outline as con-

³⁸ Donald S. Gilpatric, Deputy Chief of the Economic Cooperation Administration (ECA) China Mission and concurrently Attaché at the Consulate General at Shanghai.

³⁹ Robert A. Griffin, Special Assistant to Roger D. Lapham, Chief of the ECA China Mission.

⁴⁰ John D. Sumner, Chief Economic Adviser, ECA China Mission.

sisting related measures (1) to increase taxes (2) to reduce Government expenditures (3) encourage exports, such as US needed strategic metals and (4) bring bullion and hard currency holdings both in China and abroad under Central Bank control. He mentioned proposed establishment supervisory board to watch over currency emission but made no reference to possibility recall of *fapi* and issuance new currency. Wang emphasized present lack of confidence in currency as important contributor to inflation.

In response to questions Wang stated (1) plans will be developed to control credit creation by Government banks and to place them regarding issuance cashiers checks under same rules and restraints as now apply ordinary commercial banks; (2) effort will be made to impose stricter budgetary controls and procedures on Ministry National Defense, though his facial expression indicated that his hopes in this direction were realistically modest; (3) he is aware personally ultimate necessity impose realistic real estate tax particularly in urban centers.

Projected increased taxes concentrated on custom duties (already announced and reported by Consulate General Shanghai) and commodities tax. Cabinet also next month will renew effort secure Legislative Yuan approval to increase salt tax. Time lag in calculation of taxes also to be greatly reduced, and rates for Government services such as railroads to be raised to realistic levels.

Approximate total annual expenditures stated to be equivalent 1 billion US dollars. Projected tax [revenues counted on providing 45 percent this figure. Additional 20 percent of total expenditures expected to be raised by sale Govt assets, such as former Jap properties and surplus property items.

Remaining gap amounting to 35 percent of total expenditures to be closed by 1st, in all realism, by resort to printing press; 2d, by development present nebulous plans for opening books for voluntary private subscription to new Govt bond issue; 3d, presumably by partial reliance on sterilization ECA special]⁴¹ account, although this was implied but not expressed explicitly by Wang; and 4th, one must assume large measure of hope.

ECA representatives noted unwillingness of Finance Minister to make available detailed information regarding economic and financial reform program on which neither Embassy nor ECA was consulted. ECA representatives disturbed by possibility program may contain significant currency action of character which done in haste may backfire and foredoom repetition to failure.

⁴¹ Bracketed insertion based on Embassy file copy of telegram.

It was requested and Wang agreed that immediately following public announcement of program he will appoint small group trusted lieutenants to discuss with similar group ECA mission details execution program and future related measures to enable ECA fully to inform itself and to have opportunity to comment before rather than after the event.

Embassy believes forthcoming program will constitute supreme effort Wong Wen-hao Cabinet for self-help in economic areas. Its chances success unpredictable until full content and form known though we must admit T. V. Soong's⁴² asserted lack of faith in it does not bode well for its efficacy. Moreover, Finance Minister's presentation was not exactly confidence-inspiring. Embassy believes it would be a mistake for US Government to intervene at this point in effort to delay its public announcement to provide opportunity for constructive criticism by US. Accelerated pace of inflation clearly does require prompt Cabinet action. Moreover, having stressed these many months need for self-help by Chinese Government, we would place ourselves in vulnerable position in requesting delay. To do so would be to assume substantial participation in matter which is Chinese sovereign responsibility.

Evening of August 13 Wong Wen-hao confirmed to Lapham Govt intent to issue new currency and stated Generalissimo had that afternoon authorized him to proceed according to Cabinet over-all plan. Timing was not revealed.

Lapham and associates have seen this telegram. Sent Dept, pouched Shanghai.

STUART

S93.5151/8-1548 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 15, 1948—10 a. m.

[Received August 15—12:33 a. m.]

1805. For State and Treasury from Casaday and Parker.⁴³ Re-Embtel believed sent August 14.⁴⁴ Rogers says Central Bank officials Shanghai standing by since Friday night awaiting last minute details from Nanking for currency conversion scheduled [go in] to effect Monday August 16. However, up to late hour Saturday, go-ahead signal not yet received Shanghai which leads officials here to think there may be postponement of few days.

⁴² Governor of Kwangtung and former Chinese Minister of Finance.

⁴³ Paul C. Parker, Treasury Department employee and member of the ECA Reconstruction Survey Mission which was sent to China in June to recommend allocation of funds for reconstruction projects under the China Aid Act of 1948.

⁴⁴ Telegram No. 1514, *supra*.

Although Rogers opposed conversion under present circumstances, he has urged through O. K. Yui that if it is going to be done, it be done immediately; that is, early this week as (a) market conditions relatively under control just now and (b) secret surely cannot be kept more than few additional days and leakage now might prove disastrous.

Exact details conversion allegedly not known here but Rogers says apparently public announcement will be made of fixed ratio reserves to note circulation although no specific proposals advanced for budget balancing, tax reform, et cetera. Government apparently relying on optimistic calculation of reserve as per Embtel 1426,⁴⁵ repeated Shanghai 690. Exchange rate with dollar one of details being awaited from Nanking but thought rate to be either 3 or 4 to 1 US dollar. "Sun" paper notes to be used with subsidiary silver coins. Although full requirements coins not now available here, Prime Minister reported to have said conversion not to be delayed this account.

Sent Department 1805, repeated Nanking 1438. [Casaday and Parker.]

CABOT

103.ECA/8-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 16, 1948—3 p. m.

1186. Dept appreciative of your 1514, Aug 14 and is wholly in accord with Embs view as expressed in the latter half of third from last para.

MARSHALL

893.5151/8-1748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 17, 1948—5 p. m.

[Received August 17—10:18 a. m.]

1829. For Treasury and ECA and State from Casaday and Parker. Currency reform measures previously reported Embtel 1426, August 3 and ConGentel 1805, August 15, repeated Nanking 1438 (plan A) now reported suspended pending consideration alternative proposal (plan B) which would have effect putting Chinese currency on gold standard. Alternative plan being advanced by Central Bank which on Sunday August 15 balked at earlier proposal. Reported practically certain either A or B will go into effect prior September 1.

⁴⁵ August 3, p. 378.

Plan B taken to Nanking August 16 by Governor Yui and now approved by Prime Minister, Finance Minister and Foreign Affairs Minister. Yui and Prime Minister now Kuling seeking final approval from Generalissimo. Proposal discussed T. V. Soong who approves. Reported that only other persons Chinese Government who know plan are Deputy Governor Central Bank,⁴⁶ Assistant Finance Minister Hsu and Rogers who is reported author of plan. Accordingly utmost secrecy required handling this information, including no disclosure International Monetary Fund.

Basis of proposal is that gold held by Ministry of Finance and under personal control Generalissimo will be "loaned" Central Bank which, backed by Executive Yuan, will give assurance return of at least substantial portion in 3 to 5 months. Central Bank will use gold as reserve against new currency and sell gold on demand against new currency. Gold regulations will be revised so as to authorize buying, selling gold only through Central Bank. Gold to be bought-sold only few places in China. Plan provides valuation of currency probably at 4 units to dollar with domestic gold price equivalent dollars 35 per ounce. Ratio with dollar and other foreign currencies would be maintained through establishment single fixed exchange rate.

Currency would be issued in fixed ratio to gold reserve and note issue would be stabilized. Budget would be balanced following institution of plan; Central Bank feels there will be breathing space of at least month and half to 2 months following conversion in which balancing budget can be achieved. Well understood that only possibility of success this daring proposal is attainment balanced budget. Minister of Defense⁴⁷ reported willing make very substantial reduction his budget if assured stability of prices.

Bank estimates it may be forced to sell up to dollars 20 million in gold, but at that level contraction of currency would create such tight money situation that public would be forced to sell gold and foreign exchange holdings, so that some gold would be returned. During initial period there would be almost complete restriction on credit and cost of living indices would be abolished.

Present note issue, with allowance for northeastern currency, equivalent approximately 625 trillion CNC (Taiwan will be excluded from conversion plan). No information available to us on total bank deposits for which average reserve less than 30 percent. Bank proposes immediately preceding conversion date it will drive up black market rate to at least above 20 million to 1 US and on date of conversion BM⁴⁸ rate would be made official. This procedure, by reducing dol-

⁴⁶ S. Y. Liu.

⁴⁷ Gen. Ho Ying-chin.

⁴⁸ Black market.

lar value of present note issue, would greatly reduce quantity gold necessary back currency.

Sun currency has been distributed to Central Bank branches throughout China during past 10 days. However, small denomination notes (equivalent to fractional part of dollar) insufficient and coins not yet available. Therefore, large portion of present *fapi* would be kept in circulation to perform function subsidiary coins, possibly until end December.

Reported that plan could be put into effect within 24 hours of Generalissimo's approval, although Central Bank would prefer at least another week to work out final details such as pricing policy for imports now coming in at reduced rate, recasting of China aid program, determination of internal remittance rate policy, interest rates, etc.

2. Three days prior inauguration plan B, US would be officially advised, probably by Koo visit to Secretary of State. Forty-eight hours prior inauguration Koo will advise Gutt of IMF,⁴⁹ and 24 hours prior Koo will advise Board of Executive Directors in form of communicating an exchange rate. Date of conversion will be weekend or specially declared bank holiday. On morning conversion date Executive Yuan will be called for early morning meeting and for first time advised of plan immediately prior public announcement.

Central Bank anticipates plan B would have immediate effect in restoring confidence in currency as soon as gold sale demonstrated good faith of government. Expected reaction is sharp deflationary crisis as velocity of circulation drops and credit restrictions are felt. Possible some business failures with bank failures also possible. Bank feels institution plan will result in immediate expansion exports and almost complete diversion illegal exports to legal channels. Although tight import-export control will be continued, reduction imports below present levels not anticipated since such reduction considered inflationary. Bank believes that expanded exports plus increase in remittance through official channels will bring balance in international payments with ECA import program. Since entire plan directed toward creating confidence in stable currency and stable exchange rate certificate plan will be abandoned with Central Bank buying and selling foreign exchange directly on basis fixed rate.

Reported that aim of program will be to carry new currency for period of at least 4 to 6 months without additional foreign assistance. Strong efforts will be made within that period to secure substantial currency stabilization loan from US to be effective early next year. Objective plan B to enable China to represent to US that she has made

⁴⁹ Camille Gutt, Chairman of the Board of Directors of the International Monetary Fund.

courageous effort to meet her integral inflation program using all the resources remaining at her disposition, and that plan, by increasing exports and raising domestic production also attempt to meet balance of payments problem. Chinese Government may be expected to do everything possible secure sympathetic attitude on part US toward plan B following its institution.

Assuming that budget can and will be balanced (at least to extent that ECA commodity sales proceeds equal remaining deficit), greatest apparent risk in proposal appears as possibility flight of gold from China. Bank assures that every safeguard will be made to prevent exports smuggling, but takes position that so long as gold sales contract local currency circulation or provide foreign exchange there will be no serious danger. Appears clear that Central Bank and Chinese Government appreciate great risks involved plan B, but feel such action only possibility averting complete collapse.

Sent Department 1829, repeated Nanking 1452. [Casaday and Parker.]

CABOT

893.515/8-1948: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 19, 1948.

[Received August 19—12:34 p. m.]

1852. Chinese radio announced tonight and press will carry tomorrow morning Government announcement reconversion to gold yuan currency based on managed gold standard. Calls for surrender all gold and silver bullion and all foreign currencies at rates apparently as stipulated below for circulation, i. e., gold yuan 4 to US dollar; 3 to 1 ounce silver; 2 to silver dollar; 1 to 3 million present CN dollars. Backing new currency not specified except in terms 100 percent reserves.⁵⁰ New currency to be in units 1, 5, 10, 50, and 100.

Two-day bank holiday declared, tomorrow Friday and Saturday and all prominent bankers being called tonight to Nanking for conferences. Auxiliary measures include provisions that foreign assets be registered, that cost of living indexes be discontinued, that strikes be prohibited, and that northeast currency be withdrawn before November 20 at rate 300,000 to 1 gold yuan. Also planned that import quotas be reduced drastically and that budget be calculated so that revenues cover $\frac{7}{8}$ of expenditures.

Sent Department 1852, repeated Nanking 1465.

CABOT

⁵⁰ In telegram No. 1876, August 24, 4 p. m., the Consulate General at Shanghai reported an official Nanking announcement that the new currency was backed by 2,767,173.587 ounces of gold bullion, 41,370,000 ounces of silver, and U. S. \$74,189,924.46 worth of foreign exchange, with a total value of \$200,000,000, as well as Government-owned enterprises and alien property valued at \$300,000,000 (893.5151/8-2448).

893.515/8-2048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 20, 1948—5 p. m.

[Received August 20—6:41 a. m.]

1863. For Treasury and State from Casaday. Informally advised by Central Bank and Central Trust officials that inauguration new currency automatically abolished December 8 agreement as to pay-rolls, FBO⁵¹ and USEFC.⁵²

Assume until otherwise instructed future payroll and similar purchases local currency will be made by each individual post from local banks at now [*new*] official rate.

Preliminary view Shanghai office FBO is that private owners salable property will not be disposed sell for Sun currency so long as it remains inconvertible into US dollars either legally or on black market. Thus if black market disappears for a time, property acquisition may be expected virtually cease.

Sent Dept 1863, repeated Nanking 1469. [Casaday.]

CABOT

893.515/8-2048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 20, 1948—6 p. m.

[Received August 20—7:32 a. m.]

1864. To State and Treasury from Casaday and Parker. Further re currency conversion. Reourtel 1852, August 19, repeated Nanking 1465.

Chinese Government announcement provides gold yuan circulation limited 2 billion. Present circulation CNC with allowance northeast totals slightly under CNC 700 trillion. At rate 3 million to 1 gold yuan this equivalent to only 233 million gold yuan. Difference indicates expansion present circulation Central Bank estimates necessary meet monetary needs of country in face anticipated reduction velocity circulation and suggests minimum magnitude continued deficit financing to be expected. However, upper limit not considered a restriction and already discussion issuing up to 4 billion.

No indication positive action on budget balancing although press announcement set goal of revenues covering two-thirds expenditures (not seven-eighths as per reference telegram). S. Y. Liu stated to us merely that he "hopes something can be done" re budget.

⁵¹ Division of Foreign Buildings Operations.

⁵² United States Educational Foundation in China.

While press carried official statement that currency would be exchangeable for foreign exchange "under control", no present provision for implementation expected for payment licensed imports. Of[No] final decision as to continuation certificate plan, although probability present system will be tapered off.

Plan as whole same as reported Embtel 1426, August 4[3] with some technical revisions. Rogers explains failure of acceptance plans repeated ConGentel 1829⁵³ resulted from refusal Gimo to release gold, plus some hesitancy on part Prime Minister.

Sent Dept., repeated Nanking 1470. [Casaday and Parker.]

CABOT

893.515/8-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 23, 1948—6 p. m.

[Received August 24—12:10 a. m.]

1557. Reference Chinese Government's currency and economic reform measures. Complete English language text of four Chinese Government regulations released by Finance Ministry air pouched today.⁵⁴ Embassy translation Chinese text completed and will go forward shortly.⁵⁵

In summary, we can find no basis for optimism regarding gold yuan's future.

Cabinet is staking its life on success of its currency and economic measures. If we assume vigorous, ruthless and effective Government action against hoarders, black marketeers and cheaters (in whose hands control of wealth of country largely lies), it would still seem that most this program can accomplish is 3 or 4 months' surcease from upward flight of prices. In fact, there is surprisingly frank admission in official circles that Government's eyes are glued to a sympathetic Republican Congress in January and that this program is plank thrown across intervening chasm.

Only important, concrete and immediate effect of currency reform is invigorating effect on exports which legalizing black market rate should produce. It is also true that physical inconvenience of lugging around bales of paper money is removed. Otherwise basic factors seem to us unchanged. Assets which are announced as backing present currency are same assets which in theory at least underlay the CNC. Government's budgetary deficit, which is what keeps printing presses rolling out paper, remains with us and even given maximum economy

⁵³ August 17, p. 385.

⁵⁴ Despatch No. 366, August 23, not printed.

⁵⁵ Report No. 55, August 23, not printed.

where economy is possible, deficit will of necessity remain unmanageable as long as war goes on.

Measures appear calculated to take advantage of dramatic effect on Chinese public of physically new currency notes. Probable this sufficient temporarily to reduce velocity circulation calculated by Central Bank for early August at rate approximating 17 times per month. Simultaneously, CB ⁵⁶ and Central Trust reported to be releasing stocks of commodities in Shanghai and Canton, particularly cotton yarn, and restricting bank credit. Combined effect these measures should be at least temporarily stabilize prices and hereby reduce demand [for] dollars.

Remainder of program as now constituted consists largely declarations against: (1) increase in prices of goods and services over August 19 levels; (2) hoarding of commodities; (3) publication of black market prices of gold-silver foreign exchange or of "daily necessities"; (4) payment of wages and salaries on a cost-of-living index basis; (5) lock-outs or strikes.

Declarations also made requiring of all natural and juristic persons: (1) surrender of gold, silver and foreign currency held in China to Central Bank for GY ⁵⁷ notes or, at option of holder, for purchase Chinese Government US dollar gold bonds of 1947 or for dollar deposit with Central Bank to be drawn for payment licensed imports, etc.; (2) sale of all gold produced in China to CB; (3) registration of foreign exchange assets held abroad by Chinese nationals including current and fixed deposits, currencies, gold, stocks, bonds, debentures, land titles, insurance policies, etc.; (4) upon registration of foregoing, transfer of such assets to CB. Enforcement item 4 aided by provision payment 40 percent in former's fee.

Announced reserve behind currency of \$200 million in gold, silver and foreign currency does not in fact exist in that amount (refer Consulate General Shanghai telegram 1786 [1785?] August 12 ⁵⁸). Already evidence public skepticism this part of program.

As previously reported, regulation limits total GY issue to 2 billion, equivalent approximately to 10 times present note issue. Difference between amount needed to replace outstanding CNC and NEC ⁵⁹ will be used by Central Bank to meet continuing budget deficit, which there will be even if promised increase in tax collections and other revenues and reduction expenditures are forthcoming. Unless extremely drastic decrease velocity circulation, no possibility apparent that Chinese economy can absorb such an increase within next few

⁵⁶ Central Bank of China.

⁵⁷ Gold yuan.

⁵⁸ Not printed.

⁵⁹ Northeast currency.

months without accelerating inflation. Out payments additional GY largely through wage and salary payments. No significant increase production anticipated and imports to be cut minimum 25 percent.

Black market, particularly for gold bars and dollars, cannot be eliminated by fiat. Assuming regulations achieve price stability and reduction demand for dollars for maintenance of value and liquidity of wealth, there can be only slight weakening of demand for dollars arising flight of capital from areas of military and political insecurity and for payment unlicensed imports. This demand alone sufficient to create black market for dollars which must be at premium over official rates and which inevitably will pull prices upward as well.

Against possible deflationary influence arising contraction money supply and reduction velocity, offsetting inflationary factors are reduction imports, undervaluation GY in terms dollars by 10-20 percent, inertia of previously rising prices, reluctance small entrepreneurs and farmers accept psychological effect prices their goods and services amounting to few GY cents when previously expressed millions and, finally, difficulties of enforcement. Refer however Mukden's 347, August 20,⁶⁰ reporting over valuation GY in local economy. Real danger exists that these inflationary forces may go out of control at which time all confidence in currency would be lost, since Chinese Government has promised so much in attendant publicity.

Please pass to Treasury and ECA. Sent Department 1557, repeated Shanghai 739.

STUART

840.51FC93/8-2548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 25, 1948—6 p. m.

[Received August 25—7:15 a. m.]

1573. Tung Ling of Foreign Office at express request of Foreign Minister and Finance Minister called us in this morning to plead for US Government cooperation on location and identification of Chinese assets held in US. While well-informed on US position (substance of Deptel 1142, August 9⁶¹ having been given him in letter August 13 which in turn he duplicated and distributed to interested Chinese Government agencies), he asked nevertheless if Department would

⁶⁰ Not printed.

⁶¹ This telegram described arrangements regarding assets in the United States of nationals of countries assisted by the European Recovery Program; it explained that since these arrangements only applied to blocked assets the situation was entirely different from that of China which had no blocked assets in the United States (840.50 Recovery/7-2648).

explore any and all possible forms of assistance this regard on informal or unofficial basis.

We pointed out inflexibility our position but promised to transmit his request. In strictest confidence and unofficially he asked what response of US Government might be to any request of Chinese Government that Chinese assets be refrozen. No hope extended him in reply. Tung Ling stated that under chairmanship Chinese Consul General San Francisco,⁶² committee of prominent Chinese residents US is being formed to assist Chinese Government in location Chinese-owned assets and identification evaders.

Please pass to Treasury.

STUART

893.515/8-2548

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Sprouse)

[WASHINGTON,] August 25, 1948.

Mr. Tsui⁶³ telephoned this afternoon to say that the Chinese Embassy had received word from the Foreign Office at Nanking that the public reception in China to the new currency had been very satisfactory and that the Foreign Office had instructed the Chinese Embassy to convey this information to the Department. He continued that figures had been released on conversion rate and other aspects of the new measures, that prices were reported to be dropping⁶⁴ and that the Chinese Government considered this step in the nature of action taken by the Chinese themselves toward solving their problems. I thanked him for the information but made no comment other than to say that we viewed sympathetically measures of self-help taken by the Chinese Government.

893.50 Recovery/8-2548: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 25, 1948—7 p. m.
[Received August 26—12: 54 a. m.]

1576. Foreign Minister Wang Shih-chieh has asked me to communicate following message to you.

"A summary of the emergency financial and economic measures proclaimed by President Chiang on August 19 was given through me to

⁶² Tse-Chang Kent Chang.

⁶³ Tsui Tswen-ling, Counselor of the Chinese Embassy.

⁶⁴ In airgram No. A-807, August 24, the Consulate General at Shanghai reported a downward tendency in prices after the currency reforms (893.515/8-2448).

Dr. Stuart prior to their final adoption. I trust that you are in possession of information about these measures.

The signing of the Sino-American bilateral agreement regarding American aid⁶⁵ was one of the chief factors which pushed through these measures. My colleagues in the Government, especially Premier Wong Wen-hao and Finance Minister Wang Yun-wu, are just as fully determined to enforce the measures and they are aware of the seriousness of the economic situation. The general reaction of the Chinese public has been favorable towards the currency reforms as well as the other measures. Any comment emanating from you or President Truman in endorsement of this effort towards currency and other reforms will be very helpful and will have my deep appreciation.

Wellington Koo has informed me that you intend to attend the UN Assembly in Paris. I am looking forward to the pleasure of meeting you again and discussing with you these matters of common concern."

STUART

893.50 Recovery/8-2648 : Airgram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, August 26, 1948.

[Received August 31—2:25 p. m.]

A-803. Following are observations re immediate press reaction to the Chinese economic reform program announced August 19.

Press commentators can be classified into two major categories: (a) those who attempt to analyze the general price level aspects of the stabilization program; (b) those who discuss the disparities within the current price structure as it was frozen by the August 19 decree.

Group (a) has been politely friendly and circumspect in their public utterances due, perhaps, to Central Government warnings against sabotaging the currency reform program. Derogatory observations have, however, called attention to: 1) the non-liquid securities of uncertain value which constitute 60% of the highly publicized 100% reserve for the new Gold Yuan currency; 2) the unbalanced Central Government budget; 3) the meager foreign balances; 4) the low industrial production; 5) the stagnant foreign trade; 6) the hoarding of goods; 7) the civil war; 8) the conspicuous rise in certain retail food prices on August 23 and 24. They are frank in noting that unless these basic problems are solved by the economic reform program the inflationary process can be expected to resume after a temporary lull.

The over-all editorial policy attempts to create impression of optimism and resolution. Every conspicuous price reduction is pre-

⁶⁵ Signed at Nanking, July 3; Department of State Treaties and Other International Acts Series No. 1837, or 62 Stat. (pt. 3) 2945.

sented as proof that program is successful. Government's warnings against sabotaging program are displayed prominently. Editors exhort public to obey meticulously all the do's and don't's prescribed in reform program lest this should prove to be the last opportunity granted to the Chinese to salvage their mode of life. The *Shanghai Evening Post* editorializes typically: "Success depends not only upon the Government's forceful enforcement, but, even more important, upon the readiness of the Chinese people to sacrifice immediate personal gains and support the laws for the greater future stability of the country". Parenthetically, several retail food and cotton prices penetrated their legal maximums on August 23 and 24, causing over 100 arrests in Shanghai by the Economic Police Corps.

Group (b) has been more openly critical in their evaluation of the reform program, perhaps because problems involved have an immediate and direct impact upon their daily lives. They call attention to the fact that the violent price upheavals during the past 3 months produced serious maladjustments within the current price structure. These disparities were incorporated into the economic reform program when the Central Government issued the decree freezing all prices as of August 19, 1948. Some Chinese language newspapers point to obvious inequities involved in specific price and income categories as the most serious defect in the reform program. Various commentators call attention to the plight of civil servants, teachers, Army personnel, salaried employees vs. wage earners, and the public utilities, with the admonition that unless the Government adjusts these prices and incomes in terms of some pre-war equilibrium, the reform program will be jeopardized. Other commentators counter with the assertion that if these adjustments are made, the cost price relationships will be upset, thus giving another spin to the inflationary spiral.

CABOT

893.50 Recovery/8-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 28, 1948—noon.

1242. Please deliver personally following message to Foreign Minister from me in reply to his message forwarded in urtel 1576 August 25:

"Thank you for your message forwarded to me by Ambassador Stuart. I have just received information regarding the emergency financial and economic measures proclaimed by President Chiang and am now having a careful study made of them. I am gratified at your

determination, as well as that of your colleagues, to enforce measures designed to help meet China's serious economic problems and view sympathetically measures of self-help taken by the Chinese Government.

I look forward to seeing you at the UN Assembly in Paris and to having the opportunity of discussions on these and several other matters. My warm regards to you."

MARSHALL

S93.515/8-3048

Memorandum by Mr. Paul H. Nitze, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), to the Secretary of State

[WASHINGTON,] August 30, 1948.

Problem

In a desperate effort to forestall a collapse in the acceptability of the Chinese currency, upon which the power and authority of the present Government in China vitally depends, that Government initiated on August 23 a sweeping currency reform program. A new currency is being introduced at the rate of 3 million to one, and every effort is being made by the Government to establish public confidence in the new unit.

There have been recurrent reports from China that, as one step in establishing this confidence, the Government would seek a large-scale "currency stabilization" loan from the United States. No such request has yet been received, however, through official channels. (A press dispatch from China also reported an application to the International Bank for a 500 million dollar stabilization loan, but inquiry at the Bank—which obviously could not give such an application serious consideration—discloses that no such approach has been made.)

A currency stabilization loan, properly speaking, would be a loan to provide silver (or gold) for circulation in China, or to provide gold (or dollar) resources to build up the reserves held by the Central Bank against the new currency. It would be based on the hope that by assuring convertibility into "hard money", or alternatively, handsome window-dressing at the Central Bank, the new currency would be given a prestige which would inspire public confidence.

Aside from such measures, with objectives largely or wholly psychological in nature, the Chinese might request expansion or revision of the China Aid Program with a view to combatting inflation—and protecting the value of the currency—by accelerating the flow of consumer goods to the Chinese market.

Main Features of the New Currency

The Chinese Government has commenced the introduction of a new currency called the gold yuan and described as a managed gold standard. One new yuan is being exchanged for three million old CN dollars, and the exchange rate of the new unit in terms of U. S. dollars is to be four yuan to the dollar. Assuming complete conversion of the present note issue, the initial issue of the new currency would amount to only about 230 million yuan (60 million dollars). However, an upper limit of 2 billion yuan has been authorized, apparently in recognition of the fact that the public's need for currency for transactional purposes will be much greater if the new notes do not have the extreme velocity of circulation which characterized the old. In addition, allowance may have been made, realistically, for some continued issues to cover budgetary deficits. The Government has announced that as "backing" for the currency it holds 200 million dollars in gold, silver, and foreign exchange, and 300 million dollars in government-owned enterprises and other domestic properties. Ignoring the latter, there would still be a 40 per cent cover in bullion and foreign exchange against a 2 billion yuan note issue, although it should be noted that the Central Bank has outstanding foreign exchange liabilities amounting to more than half of these reserves. In any case, these reserves can hardly be expected to have any more effectiveness in the case of the new currency than in the case of the old.

Auxiliary reform measures include provisions for the registration and surrender of foreign assets (such as gold, silver, and foreign exchange), for the prohibition of strikes, and (to emphasize price stability) for the discontinuance of cost of living indexes and the dependence of wage rates thereon. The essential feature of the plan, however, appears to be the recognition of its dependence on immediate and radical fiscal and budgetary reforms to insure an early balancing of the budget, but no specific measures to achieve this objective have yet been announced.

Prospects for Success of the New Currency

The catastrophic progress of the inflation in China is best illustrated briefly by the rise in note circulation from about 30 trillion CN dollars at the beginning of this year to about 700 trillion CN dollars at the present time (including Northeast currency which is to be converted at 300 thousand to one). The black market exchange rate for CN dollars over the same period has depreciated from about CN\$100 thousand to US\$1 to CN\$11-12 million to US\$1. The expansion of the note issue is almost wholly associated with Government expenditures, but as confidence in the currency wanes, prices rise faster than the increase in the note issue—i. e. the velocity of circulation increases.

The movement in the black market exchange rate closely reflects the decline in the internal purchasing power of the Chinese dollar. Hence the total U. S. dollar value of the note circulation, at the black market rate of exchange, has fallen to about only US\$60 million. This may have erroneously persuaded some officials of the Chinese Government that the magnitude of the currency problem was shrinking; in fact, it only demonstrates the extremity which the inflation of the old currency had reached.

The Central Bank expects an immediate favorable reaction to the currency reform in the form of restored confidence, a marked decline in the velocity of circulation and hence stability of prices until the budget can be balanced, an expansion of exports and an almost complete diversion of illegal exports and inward remittances to official channels. The lasting success of the plan will clearly depend, however, on immediate and fundamental tax and budgetary reforms probably beyond the capacity of the present Government to execute in the near future.

The magnitude of the budgetary problem is indicated by the fact that Chinese Government receipts are understood to be less than 30 percent of all expenditures, which are estimated to be at least the equivalent of US\$1 billion annually (75 percent for military purposes). Moreover "receipts" include not only taxes, but proceeds of the sale of Government assets and the net proceeds from the sale of Government-owned foreign exchange. The latter item will henceforth include sales of imports financed by the ECA, but under the present program these will be no larger (and may be smaller) than imports financed in recent years by earlier aid programs and by liquidation of China's gold and dollar reserves.

If public confidence is not rapidly established in the new currency, and it comes to be looked upon as a desperate expedient of the Government, there may be a flight from the new currency more rapid than hitherto experienced with CNC. Such a development would, of course, further impair the ability of the National Government to exert effective political and military control.

Recommended Policy on Stabilization Loans

The United States Government in accordance with previously formulated policy and in the light of existing uncertainties with respect to the program, should not now consider any new or additional assistance to the Chinese Government in the form of "currency stabilization" loans.

The China Aid Program purposely avoided any provision for currency stabilization for reasons which were explained in a memorandum submitted last March to Representative Eaton and Senator Vanden-

berg⁶⁶ in connection with proposals to use silver to stabilize the Chinese currency. The Department then took the position, in consultation with the Treasury Department and the Federal Reserve Board,⁶⁷ (1) that the basic cause of inflation in China was the massive budgetary deficit associated with large-scale military expenditures and financed by a "printing press" expansion of the note circulation; (2) that so long as this basic monetary disorder persisted there could be no permanent monetary stabilization; and (3) that even attempts to achieve temporary currency stabilization through loans for this purpose would represent a hazardous and uncertain venture involving large expenditures for at best limited results.

In any case, no funds for such a purpose could be made available until the new session of Congress. Conceivably, a short-term credit could be extended from the U. S. Treasury Department's Stabilization Fund, which at present has uncommitted resources of 150-200 million dollars. However, it is extremely unlikely that the Treasury Department would even consider it, and the Department should certainly not suggest it.

Possible Redispotion of China Aid Act Funds

The Chinese Government may suggest a redispotion of China Aid Act funds to maximize the contribution these funds can make to the success of the new currency. Such a redispotion might consist of one or a combination of the following measures:

(a) Acceleration of the whole ECA program to provide maximum flow of imports to China during the next three months.

(b) Abandonment of ECA plans for new capital expenditures in favor of increased imports of food, fuel, raw materials, parts, etc. which would have a more immediate counter-inflationary effect.

(c) Diversion of 125 million dollars under Section 404(b) of the China Aid Act from military procurement to imports of such goods.⁶⁸

None of these alternatives would be attractive. The first would force the Congress (and any new Administration) to confront a serious crisis in the China Aid Program early next year. The second or third would sacrifice essential objectives of the Program. Furthermore, it should be recognized that the legislative history of the China Aid Act has the effect of limiting considerably the extent to which available funds could be diverted by the President. This is true particularly of the 70 million dollars earmarked for reconstruction and the 125

⁶⁶ Neither printed.

⁶⁷ Statement entitled *Possible Use of Silver for Monetary Stabilization in China in Connection With China Aid Program*; for text, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 987.

⁶⁸ For correspondence regarding the \$125,000,000 grant, see pp. 73 ff.

million dollars available for Chinese military procurement. Decisions with regard to these two funds could properly be made only after consultation with responsible members of Congress.

Basic to a consideration of possible Chinese proposals is the fact that a redistribution of the aid program would be likely to make a significant contribution to stabilization of the Chinese currency only if internal budgetary reforms and other supporting measures appeared to have brought currency stabilization within sight. Even then, there might be serious practical limitations on what could be accomplished by way of diversion of funds during the next few months.

893.50/9-1348 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, September 13, 1948.

[Received September 13—5:48 a. m.]

2002. Press 13th prominenced Chiang Ching-kuo's⁶⁹ address on enforcement economic measures before meeting 5,000 sponsored by Youth Army Veterans' Association. Similar speech given on 10th before 3,000 labor representatives.

Labelling economic reforms "social revolutionary movement" which could succeed only if it had support [of] masses, Chiang warned of unprecedented change coming to Shanghai and of impending economic storm which would cause hardship to people during transition period. Referring rumors of forthcoming factory closures and commodity shortages, Chiang said Government would supply necessities for people's livelihood and therefore immaterial if stores and restaurants catering to closed doors [*sic*]. He stated Government preparing supply urgently needed raw materials to factories.

Following excerpts from speech as quoted *North China Daily News*:

"Policy through People's Principles is to protect law-abiding merchants. But if factories and shops tried threaten Government by suspending business, Government would never compromise with any of them. . . .⁷⁰ When most powerful speculator in Shanghai has been defeated, nation-wide economic problem can be handled more easily. This is why we have used political force to suppress speculation and utilized economic force to guide idle funds. Many people have criticized me and said my methods not democratic, but we know what is meant by democracy. Democracy means to use force of majority to suppress minority in interests of majority. Some have said my act of confiscating hoarded goods is equivalent robbing. If this robbery is committed protect law abiding merchants and safeguard

⁶⁹ Son of Generalissimo Chiang Kai-shek and Deputy Chief of the Shanghai Economic Supervisory Office.

⁷⁰ Omission indicated in the original.

property and livelihood good citizens, then I would be willing to be such a robber."

Chiang named Yung Hung-yuan who "in an instant could make tens of millions of dollars which come from blood and sweat of people" as real robber. Chiang promised terminate Shanghai as "paradise of adventurers" and return city to people.

Sent Department 2002; repeated Nanking 1546.

CABOT

893.515/9-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 13, 1948—5 p. m.

[Received September 14—3:24 a. m.]

1672. Pass to Treasury and ECA. Currency and complementary economic reforms going better than originally anticipated, particularly in northern cities owing competent technical operations Government and Central Bank and unexpectedly strict enforcement by economic police particularly in Shanghai. However, inflationary pressures continue and being suppressed only by enforcement tactics. Accordingly Embassy finds [no] basis to modify its original pessimistic evaluation chances success currency reform (see Embtel 1557, August 23, repeated Shanghai 739). Until end August bank credit almost completely suspended and now being granted only for "productive purposes". Restrictions created temporary money shortage forcing coverage spot positions by gold yuan conversion of hoarded US currency and gold. Simultaneously holders large stocks foreign exchange converted small percentage to obtain evidence of having converted. Initial receipt of gold, silver and foreign currency reached about 2.5 million US dollars per day, but has declined since first week or 10 days. No evidence conversion by large holders and apparently little or no response to requirement registration foreign holdings.

Business community Shanghai reports credit restrictions plus operations economic police generally disrupting business activity and normal commercial operations are at extremely low level. American bank officials particularly critical effect new regulations their functions. In connection with new measures, police announced intention impose penalties ranging to execution on illegal activity prior August 19. Since most businessmen, including US, felt such practices necessary in past for survival, possible arrests could be wide-spread in business community. Considered threat penalties such practices being used to compel surrender foreign exchange assets and registration those held abroad. Shanghai enforcement considered by far most

stringent so far. Canton only today announcing that such enforcement will be undertaken.

Financial black markets developing for dollars and gold in coastal cities. Markets not broad and operate under great difficulty owing activity police. Shanghai rate around 4.40 with 90-day future exchange at 5.0 to 5.5. Central Bank dumping commodities freely but anti-hoarding measures limit effectiveness as monetary device. Tientsin, after holding between 4.20 and 4.30 until September 5, on 11th report 5.35 with a 3 percent premium for TT's ⁷¹ on Shanghai. Nanking steady past week at 4.33. Peiping reports no BM until September 8. Rate September 10 4.70 with limited activity. Prices spiral but money market tight. Canton after initial week of selling GY at a premium showing slight increase in rate reported 4.13 on September 9. Market for HK ⁷² dollars very erratic, has peaked at .998 and now at .85 (par is .75). Dumping of gold by speculators in Hong Kong reported depressing Canton market for gold and US dollars.

In western China and Mukden almost no dollar market, but rising demand for gold. Chungking gold price rose steadily to GY 260 per ounce September 9, dropping to 220 on 11th as result of police measures. Mukden gold price rising steadily to buy 105 million, sell 130 on September 11, figures NEC par is 60 million. Also limited dollar BM at GY 5.

Prices in northern cities have been held by enforcement August 19 prices and anti-hoarding regulations. In Shanghai Gimo's son has been arresting prominent business men right and left. Prices of hard goods have successfully held, but merchants refusing to sell. Prices other goods, particularly food brought daily from country, have continued increase, but unevenly. Average ranges between 20 to 50 percent through development extensive black market. Wage rates have increased only slightly and effective decline real wages causing discontent. Shanghai commercial banks forced by political pressure register holdings. Also refer Shanghai's 1992, September 10.⁷³

Tsingtao with US Navy cooperation has returned to block [*local*] currency basis. Communists appear dumping old CNC currency at outer perimeter points where premium for dollars [and?] gold reported 50 percent. Prices estimated up 16 percent over August 19 with local committee authorizing specific increases. Trade almost at standstill with many commodities unavailable. Hankow reports enforcement very effective but merchants reluctant sell at old levels. No arrests big operators.

⁷¹ Telegraphic transfers.

⁷² Hong Kong.

⁷³ Not printed.

Chungking also reports initiation active enforcement, but price level has doubled since August 19.

In south Peiping on [*prior*] August 19 BM rate US [and?] HK dollars was about 50 percent under Shanghai. Canton BM rate August 19 was 6.5 million. Overnight increase of official rate to 12 was reflected in immediate general price increase of about 120 percent, although only slight increase wages. Enforcement this area did not become energetic until after 1 September when directed principally currency transactions. Mayor authorized food price and wage increase up to 80 percent but this type selective administrative adjustment very uneven. Rice price remains low and prospective rice shortage developing as result refusal farmers sell and interruption Chinese Government rice procurement [from] Burma by civil disturbances.

Throughout China great pressure on commercial importers through authorized channels, particularly petroleum, as result devaluation official rate from about 8 to 12. Now requesting 100 percent price increase which will have far-reaching effect on general price structure. For petroleum 100 percent increase price automotive gasoline authorized. Prices other POL⁷⁴ products to remain for time being at present levels. Companies to receive non-interest bearing loan from Central Bank equivalent 100 percent present returns to be repaid when eventual price adjustment authorized. General overall adjustment prices and wages expected September 23 may have serious psychological effect as indication official recognition extent to which prices have slipped.

No evidence of progress reduction budgetary deficit. Note issue continues increase same rate as previous months. Prime Minister and Finance Minister have indicated no reduction possible this time military budget⁷⁵ although acknowledge some military expenditures not essential [to] military operations and substantial portion gasoline BM from military stock.

Old pattern of flow idle funds from North China to Shanghai-Canton has reappeared. Canton banks estimate remittances to Canton September 5 and 6 total GY 1.6 million. Selective remittance rates highest for north to south movements reestablished by Central Bank.

Sent Department 1672, repeated Shanghai 800.

STUART

⁷⁴ Petroleum, oil, lubricants.

⁷⁵ In telegram No. 1691, September 15, 5 p. m., the Ambassador in China reported information from the Chinese Foreign Minister that Generalissimo Chiang had agreed to the formation of a commission, including prominent civilians, to study the military budget with a view to its reduction and the removal of abuses (893.5151/9-1548).

840.51FC93/9-1048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 13, 1948—8 p. m.

1304. Treas and State agree not possible reblock Chinese assets or otherwise assist locating and identifying such assets. (re urtel 1573 Aug 25). Assistance being given ERP⁷⁶ countries locating dollar assets US limited to blocked assets, decision having been taken by NAC⁷⁷ not to extend program to free assets. Reblocking assets, although requested from various sources respect assets various countries, has been continually denied. Administrative as well as policy considerations important factor. You sh[oul]d, therefore, continue state [at] your discretion that reblocking cannot be done. Further explanation follows for Embassy info.⁷⁸

MARSHALL

893.5151/9-1648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 16, 1948—4 p. m.

[Received September 16—8:01 a. m.]

1705. Pass to Treasury and ECA. Local press on August [September?] 13 carried reports originating Ministry Finance that total of GY 230 million released for conversion gold, silver and foreign currencies. Report did not indicate value of conversion against old CNC. Further stated 1937 *fapi* issue was CNC 2 billion, and under current conditions GY 4 billion will be necessary meet demands for country.

If statement correct, present circulation above GY 5,000 million since CNC circulation August 19 equivalent GY 225 million. Between August 19 and first September CNC note issue alone increased by more than 50 per cent, although substantial portion probably not in circulation but held in banks following conversion to gold yuan. No data presently available gold yuan issue. Will report further.

Clear that continuation deficit financing by expansion note issue generating mounting inflationary pressure which cannot indefinitely be contained by even most stringent enforcement measures.

Finance Minister reported to Legislative Yuan yesterday eight-ninths of ordinary budget for last half 1948 expended July and Au-

⁷⁶ European Recovery Program.⁷⁷ National Advisory Council.⁷⁸ This consisted of copy of letter of February 2 from Secretary of the Treasury Snyder to Senator Vandenberg, sent to the Embassy on September 22 under transmittal slip (Form DS-4); for text of letter, see Treasury Department, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1948*, p. 289.

gust, but he hopes for balance in ordinary budget remainder year as result unexpectedly stable price situation now prevailing. No mention extraordinary military budget.

Financial black markets strengthening. Tientsin closing rate 13th at 5.75. Peiping reports large transactions up to 5.15 on 13th, general market at 4.80 on 14th with pressure from police. Canton reported GY at premium with rate for 13th at 3.93. Mukden on 14th dollar rate up to 5.16 with gold buying rate NEC 115 million equivalent to GY 383 or US dollars 96 per ounce. Premium gold over dollars result geographical situation in which gold has monetary value surrounding area but accessible commercial market for dollars greatly limited.

Sent Department 1705, repeated Shanghai 812.

STUART

893.515/9-1648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 16, 1948.

[Received September 16—6:59 a. m.]

1706. Subject: Sale to public of shares in Government enterprises.

Chinese Government August 30 decided sell shares certain state-owned enterprises to private buyers for obvious purpose absorb floating capital but announced [in] order obtain funds with which to back new gold yuan currency introduced August 20. Companies involved include:

(1) China Textile Industries Incorporated, assets of which reported total gold yuan \$1,140 million but figure assertedly reduced to gold yuan \$800 million in order attract public capital and guarantee dividends. Of shares totalling last amount, gold yuan \$420 million slated to be handed over to Currency Supervisory Board (CSB) as backing for new currency, gold yuan \$200 million to be sold to public, balance retained by CTII pending further decision by Government.

(2) China Merchants Steam Navigation Company with assets reported undervalued at gold yuan \$600 million; half of shares to be sold to public and half to be turned over CSB.

(3) Taiwan Sugar Corporation with assets valued gold yuan \$480 million; shares totalling gold yuan \$172 million to be turned over to CSB, shares worth gold yuan \$48 million to be sold to public, remainder held by company;

(4) Taiwan Paper Company with assets valued gold yuan \$80 million, of which gold yuan \$32 million to be turned over to CSB, gold yuan \$12 million sold to public, balance retained by company;

(5) Tientsin Paper Pulp Company with assets valued gold yuan \$20 million, with shares valued gold yuan \$80 million to be turned over to CSB and shares gold yuan \$4 million to be sold to public, remainder retained by company.

Summarizing, five companies concerned with estimated assets aggregating gold yuan \$1,980 million scheduled issue shares for that amount, with gold yuan \$932 million slated to be handed over to CSB gold yuan \$564 million to be sold, remainder held by companies. Latter due to be reorganized into joint stock companies with expectation after certain proportion shares sold to public stockholders meeting will be called to elect representatives of public stockholders to serve on boards of directors.

Sales of shares to public first day (September 10) amounted to only gold yuan \$1,242,000, according press, with total for September 10-14 reported at only gold yuan \$2,960 million. Sales being made thus for [*far*] only in Shanghai through Chinese Government banks but sales to be extended other cities soon.

Shanghai *Ta Kung Pao* September 15 commenting on poor public demand for these shares gave following five reasons therefor:

(1) As Government has retained too many shares (viz. 70% China Textiles, 90% Taiwan Sugar and 80% Taiwan Paper) public shareholders cannot hope to supervise operations and management;

(2) With declared assets of certain companies in excess of newly fixed share capital, no data representing detailed assets and liabilities have been issued. Moreover, since no certified investigations on foregoing made by neutral parties, public confidence difficult to attain;

(3) Government assertedly has given no indication as to legal status of these companies after reorganized and whether they will be individually operated or by direction of Government administrative organs;

(4) Minimum denomination of shares for China Textile and Taiwan Sugar is five shares at face value of gold yuan \$500, which said rather high and beyond purchasing power of small investors;

(5) Finally most important point is question whether shares of these companies will hereafter appear on market. While generally believed they will, public hesitates buying non-negotiable shares.

Sent Department 1706, repeated Shanghai 813.

STUART

893.5151/9-1748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, September 17, 1948—6 p. m.

[Received September 17—8:20 a. m.]

2049. For State, Treasury, and ECA from Casaday and Parker; [repeated] Canton for Lapham. In interview with Rogers today he repeated general pessimistic outlook as reported ConGentel 1552, July 12, reported general attitude Central Bank and Finance Minister that currency program was going very badly, and that no serious

effort was being made by Bank of Chinese Government utilize time gained by temporary stability to initiate and carry through essential economic reforms. In face of mounting pressure deficit financing through increasing note issue, production and commerce coming to standstill. Imports also greatly curtailed primarily as result freezing retail prices. Exports spurted during first week following new rate, but now virtually ceased since domestic prices export commodities at source of supply in interior cities has risen above world market price levels at current exchange rate. Similar price differential exists between Shanghai, other port cities and interior areas so that raw materials and foodstuffs not flowing from interior cities to coast for local production and consumption.

Rogers believes enforcement action cannot contain inflationary pressure longer than possibly one more month. Break, when it comes, will reflect cumulative pressure and go much faster than July–August period. Situation will be aggravated by rice shortage occurring probably within 12 [1–2] months.

Growing sentiment among Chinese Government financial circles for silver coinage, as only alternative to present stringencies. Central Bank now accumulating all silver coins surrendered for gold yuan for possible use as initial release such a program. Possible that high level approach may be made to US Government for assistance silver coinage program during financial meeting Monetary Fund.

Sent Dept 2049; pouched Nanking 1571, Canton 131. [Cassaday and Parker.]

CABOT

124.05/9–2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 20, 1948—7 p.m.

[Received September 21—2:09 a.m.]

1735. For State and Treasury. Reference Department's circular airgram August 24 ⁷⁹ concerning most favorable exchange rates for payment operating expenses and salaries. As previously reported by Embassy and ConGen Shanghai, strong inflationary pressures generated following inauguration new economic measures particularly by continued deficit financing civil and military budgets, increase to effective purchasing power through Government buying foreign exchange holdings in China, decrease available goods and services from both domestic production and imports, and hindrance to internal commerce from price differential. Pressure presently being partially contained

⁷⁹ Not printed.

only by strict economic policing, but such action cannot be effective indefinitely. Break in rate may well be sudden and severe.

In order to protect interests against possible contingencies, Embassy requests authority at its discretion to negotiate a special rate with the Chinese Government similar to December 8 agreement.⁸⁰ Should such action become necessary a rate equivalent to the full Hong Kong cross rate will be sought as a minimum. Embassy may be forced to resort black market but greatly prefers request special rate from Chinese Government. Embassy desires negotiation directly with top executive officers Chinese Government with assistance and advice Treasury Attaché.

Further reply to reference airgram will go forward shortly as airgram.⁸¹ However, believe immediate authorization as requested above imperative.

Sent Department 1735, repeated Shanghai 829.

STUART

893.5151/9-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 21, 1948—6 p. m.
[Received September 22—12: 09 a. m.]

1741. For Department and Treasury. Protocol Department of Minister Foreign Affairs has notified Embassy and all other diplomatic representatives provisions customs notification 237 and requested representatives notify their nationals in China.

Notification stipulates a limitation on Chinese currency notes carried by passengers into or taken from China in amount of gold yuan \$20. Notification further advises of repeal previous regulations governing remittances of funds to Shanghai and Canton from other parts of China and repeal of restrictions on amounts of currency transferred by air within China by banks or carried by air passengers.

Embassy understands limitation on international movements of Chinese currency was originally proposed at gold yuan 100 or gold yuan 500. Present very low limitation appears ridiculous and will lead to difficulties enforcement. Hong Kong was prepared accept financial agreement with China under which Hong Kong would agree impose and enforce complementary restriction on movement of Chinese currency into and out of Hong Kong. Discussion this point almost terminated when Chinese authorities proposed 20 dollar limi-

⁸⁰ See telegram No. 2356, December 9, 1947, 1 p. m., from the Ambassador in China, *Foreign Relations*, 1947, vol. VII, p. 1229.

⁸¹ Airgram No. A-246, September 30, not printed.

tation which Hong Kong representative felt completely unrealistic but reluctantly accepted.

First two paragraphs above have been used as Cirtel to all China posts requesting regulations be publicized to American community.

STUART

893.50 Recovery/9-2248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 22, 1948—6 p. m.

[Received September 22—8:59 a. m.]

1748. We believe time has arrived for Department urgently and seriously to consider action it should be prepared to follow itself and recommend to ECA in event gold yuan should collapse with spectacular and explosive suddenness within next month or two.

We realize that historically in China the inevitable has often been staved off for a surprising length of time. We also recognize that safety valves, as yet not in existence, can be administratively improvised to moderate impending economic disaster. Nevertheless, collapse of the gold yuan is a possibility which must be reckoned with and against which plans should be prepared in advance.

As we and Consul General Shanghai have been reporting, superficial price stability has been achieved during past month largely by means of stringent enforcement campaign, the most dramatic aspect of which has been that conducted by Generalissimo's son, General Chiang Ching-kuo, in Shanghai. During this month, however, underlying inflationary forces have continued at work and Executive Yuan has been able to show no progress in reduction of budget deficit. In effect, police power has pent up and concealed the continuing economic deterioration. Last reports from North China, which bellwethered CNC slide toward oblivion, reveal Tientsin black market rate for GY has been as high as 5.75 to US dollar 1 on limited transactions against parity of 4 to 1, and the price of gold in Mukden is twice the official price. Spurt in exports sputtered up [*out*] after first 10 days despite original hopes that legitimization of August 19 black market rate for US dollar would produce impressive and enduring export results. China-wide reports received by Embassy indicate trade stagnating as semi-terroristic enforcement acts and inflexible official adherence to August 19 price levels have caused withdrawal of goods from shelves and production declines in many lines. Slash in import quotas has further reduced volume of goods available within China for sopping up Chinese currency, outstanding issue of which has more than trebled in past 4 weeks.

One highly disturbing aspect price policy referred to above has been slow-down or stoppage of rice shipments from producing areas to coastal cities and other deficit points. Although any precise prediction of timing GY collapse is impossible, we cannot escape conclusion that it might coincide with serious rice shortages and attendant food rioting in Shanghai and other coastal centers. In Canton, and probably Shanghai, rice stocks will fall dangerously low within a month. Taken in conjunction with scattered evidence previously reported by Embassy of growth in anti-American feeling and past publicity regarding CRM⁸² and ECA role in rice rationing in certain cities, all elements of nasty situation would be present.

Ability of Chinese Government to cope with chaotic economic and financial situation would be gravely impaired by fact that it had on August 19 shot its wad on currency reform with all attendant fanfare. A second attempt at substitution new currency within matter of months would scarcely invite widespread confidence or patriotic fervor, every effort to capture which has already been made. Reliability of troops, procurement of whose needs with paper once more approaching worthlessness, is another factor to be taken into account. This possibility lends some credence to rumors current in Shanghai that Generalissimo's son has broken into several godowns loaded to rafters with cotton yarn which, when cloaks had been penetrated, was found to be personal property of several important field commanders allegedly held as rainy-day payment in kind for troops and confiscation of which Nanking prevented.

If foregoing situation should develop, we believe US Government should immediately throw all available economic resources into effort further to support present Government, to which there is in sight no acceptable alternative. Possible steps would include:

(1) Using total available ECA China aid funds for food purchase for priority shipment to China in anticipation that Congress in January might be prepared to vote on emergency basis additional funds.

(2) Granting China an immediate silver loan, although Embassy is unaware of legal authority on which such action might rest. Such a limited silver loan may be required for payment in form of coins or specie to troops. A hard currency with traditional acceptability would be essential for payment of troops and procurement food and other essential supplies to Army as only effective alternative to valueless paper in period of crisis. This proposal would apply only for temporary period of no more than a few months and be strictly emergency measure to keep armies in field and discourage defection. It is not in any sense a suggestion that China be placed back on the silver standard.

⁸² China Relief Mission.

We recommend immediate preparation for action along these lines, since the only other alternative would seem to us to be withdrawal to the maximum extent practicable from diplomatic, economic and military support of the present regime until the situation had stabilized as a result of the interplay of domestic forces.

Consul General please pass to Lapham personally. Department please pass to Treasury and ECA.

Repeated Shanghai 838.

STUART

893.51/9-2848

*Memorandum of Conversation, by the Under Secretary of State
(Lovett)*

[WASHINGTON,] September 28, 1948.

Participants: U-Mr. Lovett
CA-Mr. Freeman ⁸³
FN-Mr. Spiegel ⁸⁴
FN-Mr. Doherty
Mr. Wang Yun-Wu, Chinese Finance Minister
Mr. Wellington Koo, Chinese Ambassador

The Ambassador, calling to present Mr. Wang, who is in Washington to attend the annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank, remarked that the occasion was doubly significant, i. e., to the significance of annual meetings of the Fund and Bank was added the importance of the new financial measures recently introduced in China of which Mr. Wang was the principal architect.

I inquired how things were going with the new currency. Mr. Wang replied that so far everything had worked out very well: prices were holding steady (in fact had declined in Peiping and Tientsin), gold, silver and foreign exchange was being turned in at a satisfactory rate, the effect on exports had been very gratifying, and Mr. Wang anticipated that Government expenditures and the note issue would be held under strict control.

I asked whether the stringent price controls had not interfered with the flow of goods from the countryside to the cities. Mr. Wang replied this was not the case. He emphasized the importance of price controls and said that the success of the new currency depended on three things: (1) price controls, (2) the surrender of foreign assets and (3) control of the note issue.

⁸³ Fulton Freeman, Assistant Chief of the Division of Chinese Affairs.

⁸⁴ Harold R. Spiegel, Chief of the Division of Financial Affairs.

Mr. Wang said the surrender of foreign assets in exchange for the new gold yuan had amounted in the first twenty-two days after the introduction of the new currency to the equivalent of US\$100 million in gold, silver, foreign exchange and foreign currency notes. In addition, private banks have turned in some US\$40 million of foreign exchange and were expected to surrender US\$10 million more. By September 30, the deadline for the surrender of foreign assets, Mr. Wang said he anticipated that the total amount of foreign assets surrendered would amount to US\$250 million. Mr. Wang admitted that the assets so far surrendered had come largely from the middle classes and that the Government was still considering measures to bring about the surrender of foreign assets by the "well-to-do".

In reply to a question about exports, Mr. Wang said that after the introduction of the new currency, the excess of exports over imports was at the rate of about US\$12 million monthly. This, he said, was the reverse of the visible trade balance before the introduction of the exchange certificate system (now abandoned ⁸⁵) in June. With respect to the note issue, Mr. Wang said that 200 million gold yuan had been required to redeem outstanding *fapi* (CN currency) including the Northeast currency. By the end of August the note issue had risen to 290 million gold yuan, largely reflecting additional gold yuan issued in exchange for foreign assets surrendered. By the end of September, he anticipated that the note issue will have increased to around 500 million gold yuan, about $\frac{4}{5}$ of the increase over the end of August to be accounted for by the surrender of additional foreign assets.

Mr. Doherty remarked that this calculation of the increase in the note issue would imply a remarkable reduction in the amount of the budgetary deficit. Mr. Wang replied that he expected to reduce the budgetary deficit to manageable proportions. He pointed out that before the war Chinese Government expenditures averaged approximately the equivalent of US\$900 million. Since the end of the war, Chinese Government expenditures had risen to above the equivalent of US\$1 billion of which about sixty-five percent represented military and associated expenditures. To absorb part of the increase in military expenditures, the pay of civil servants had been reduced to $\frac{1}{3}$ of the pre-war level, while the pay and allowances of soldiers remained the same.

Mr. Wang said that with the new currency and stable prices he expected to be able to reduce total Government expenditures to about the equivalent of US\$900 million or 3.6 billion gold yuan. With in-

⁸⁵ In telegram No. 1876, August 24, 4 p. m., the Consul General at Shanghai reported abolition of the certificate system the previous day (893.5151/8-2448).

creased taxes and improved tax collection methods, he hoped to bring revenues up to 2.5 billion gold yuan, leaving a deficit of 1.1 billion gold yuan or about US\$275 million.

Mr. Spiegel asked if this meant that the Chinese Government could for the foreseeable future keep the inflation within limits which would enable the Chinese Government to maintain the present value of the gold yuan. Mr. Wang replied that a deficit of 1.1 billion gold yuan was well within the limit of 2 billion gold yuan established for the new currency. He said that the revenue estimate he had given included receipts from the sale of ex-enemy properties, surplus property disposal, and the sale of shares in Government-owned enterprises, but did not include receipts from the sale of ECA goods which would help to cover the remaining deficit. He also indicated that with stable prices, he expected to be able to issue gold yuan bonds in the amount of about 400 million gold yuan.

Mr. Wang pointed out that as head of the Commercial Press, he considered himself a practical businessman who understood figures. He recalled that as Minister of Finance, by combining the Direct Tax and Commodity Tax Bureaus, he has reduced tax personnel from 50 thousand to 21 thousand. As further evidence of his conservatism, he pointed out that although $\frac{1}{2}$ of 3.6 billion gold yuan is 1.8 billion gold yuan, the budget he was bringing to the Legislative Yuan for the first six-month period limited expenditures to 1.6 billion yuan. This indication of efficient budgetary management, however, was qualified by his next remark to the effect that budgeted expenditures did not include expenditures for Northeast China.

I concluded the conversation by thanking Mr. Wang and the Ambassador and remarking that I was doubly glad to have had this news of China because it was such good news. Mr. Koo cautioned, however, that this did not mean that China could get along without further U. S. assistance. He said that the new measures constituted a bold experiment of which Mr. Wang should be justly proud, but that we could not hope that they would immediately solve all of China's financial problems.

NOTE: Mr. Wang's optimistic assurances regarding the success of the new currency almost completely contradict reports received from the Embassy at Nanking. These reports indicate that the note issue has tripled since August 20, that stringent price controls have seriously inhibited the flow of goods, that exports enjoyed only a temporary spurt and that no really effective measures have been taken to control Government expenditures.

ROBERT A. LOVETT

124.935 : Telegram

*The Acting Secretary of State to the Ambassador in China (Stuart)*⁸⁶

WASHINGTON, September 29, 1948—5 p. m.

1371. For Embassy, Casaday and Parker. State and Treas sympathetic Emb desire for flexibility and Emb concern re possibility sudden and severe break in rate (Embtel 1735⁸⁷ rptd Shanghai 829). Because importance possible new rate on Army-Navy expenditures and implications for ECA special account, which latter is NAC interest here, would appreciate more info prior consideration your recommendation. Transmit alternative rate formulas under consideration for possible approach Chinese Government.

LOVETT

893.5151/9-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 30, 1948—6 p. m.

[Received October 1—2:38 a. m.]

1809. For State, Treasury and ECA. During past 2 weeks enforcement program has strengthened throughout China with black market rates for dollars holding steady or declining, particularly Canton, Tientsin and Peiping. Police measures over prices less effective. Commodity prices roughly doubled since August 19 in most western and northern cities.

Generally reported from all cities that utility rates so low that revenues considerably less than costs. Authorization for upward adjustment expected shortly, although Government proposing payment subsidies to companies to meet increased expenses. Such measures obviously intensify mounting inflationary pressures. Government plans for announcement September 23 general upward adjustment utility rates, key commodity prices, and wage rates postponed until October 1. Prime Minister yesterday advised that Government not completed studies on which to base adjustments and date of announcement postponed indefinitely. Believed that Chinese Government too fearful of inflationary pressures take positive action and will continue rely on enforcement.

Director National Tax Administration⁸⁸ reports Government does not contemplate readjustment direct and commodity taxes. States that increased rates would only increase evasion. Some revision income tax under consideration. No indication significant increase

⁸⁶ Repeated to the Consul General at Shanghai as No. 1676.⁸⁷ September 20, p. 407.⁸⁸ Chiang Shu-ko.

Government revenues past month. Expenditures probably at higher rate than June–August owing increase temporary military operations. Monthly deficit August 19–September 20 reliably estimated GY 200 to 250 million. Since this financed almost entirely expansion note issue, currency circulation now exceeds GY 925 million, although actual figures not presently available. (Re Shanghai's 2048, repeated Nanking 5570 [1570], September 17.⁸⁹)

Black market US currency remains steady under strong police pressure except for North China and Mukden where rises reported September 25–29. Controls continue most effective Shanghai. Money market extremely loose, particularly Shanghai and Canton where gold yuan payments for foreign exchange and liquidation commodity boards [*hoards?*] heaviest. Considerable movement GY currency from outports to Canton and Shanghai despite restrictions such movement and heavy remittance charges. Bank deposits these cities reported by press to have increased approximately 10 times in past month. Banks complain demand for loans negligible and no outlets available for investment. Shanghai black market interest rate dropping steadily last 10 days to 5 percent per month on September 26. Stock markets remain closed although substantial volume extra-legal transactions reported, particularly Tientsin. Sale of stock in government-owned enterprises continues slow with every indication businessmen prefer hold even GY currency to stocks these enterprises. No other outlet for idle money available. Central Bank and Central Trust ceased dumping commodities end of last week.

[Here follows summary of the black market situation in leading Chinese cities.]

STUART

893.50/10–148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, October 1, 1948—4 p. m.

[Received October 1—5 : 20 a. m.]

2113. Extension of jurisdiction of Shanghai Economic Supervisor's Office to include Nanking, Kiangsu, Chekiang and Anhwei appears tantamount to adoption of "total warfare program" to this area. Previously program used only in war areas. Extension should permit Supervisor to control source of Shanghai supplies of food and raw materials which recently have failed to reach here. Also flight of local hoardings to surrounding areas will now come under young Chiang's purview.

⁸⁹ Not printed.

Some fears have been allayed by statement of Communist Suppression and National Reconstruction Corps Commander that Corps is not court or police organization and will only "encourage people to help Government carry out emergency economic measures".

Postponement of currency conversion deadline from today to October 31 for gold and foreign currencies, and November 30 for silver will permit concentration of police searches on godowns.

Deadline for registration of Chinese-held foreign assets set for November 1. Those registering will not be questioned as to source of assets.

Sent Department; repeated Nanking 1613.

CABOT

124.935: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1948—11 a. m.

[Received October 2—5:43 a. m.]

1817. For State and Treasury. Embassy opinion that sudden and sharp break in Chinese currency may occur in near future (reEmbtel 1738 [1748], September 22, repeated Shanghai 838) strengthened rather than weakened by events past 2 weeks (Embassy and Parker send reDeptel 1371, September 29, repeated Shanghai 1676). Embassy feels urgent necessity of obtaining authority from State and Treasury for negotiating special diplomatic rate (which would also apply Army and Navy expenditures).

[Here follow estimates of local currency requirements of Embassy, Consulates, and military and naval establishments in China.]

Previous cables from Embassy and Consulate General Shanghai have indicated expectation that break in currency will result in disorderly market situation. Embassy therefore reluctant commit itself to any particular rate formula and accordingly reiterates its request for authority to use discretion in negotiating best possible agreement under circumstances which prevail at time. ECA China mission has been informed of this request and supports it with view to protecting special account, although jurisdiction NAC in this connection is recognized and recommendations rate and maintenance of value arrangements will of course be referred Washington for approval. Army, Navy finance officers here have already stated they will look to Embassy and Treasury Attaché for assistance in rate difficulties.

Major difficulty with December 8 formula arose from fact substantial differential prevailing in black market between various Chinese cities. On August 19 rates for Canton, Shanghai, Peiping

as follows: (millions CNC per US dollars) 6.5, 11.8, 14.0. At present time Hong Kong rate extremely sensitive to peculiar situation prevailing Hong Kong, Canton area. Black market rate on September 29 for Hong Kong cross rate Canton and Shanghai as follows: 4.03, 3.96, 4.70. Treasury Attaché suggests, assuming circumstances prevailing at time broad spread between black market and official rate occurs would permit, that negotiations be conducted with Finance Minister to obtain separate rate for each city based on single formula. Following suggestions under consideration as general type of formula which would meet requirements presently anticipated although specific approach to Chinese Govt cannot be determined until actual market situation known: Official rate plus 95% difference between official rate and average Hong Kong cross rate and local open market rate for dollar drafts (the use and circulation of which now permitted by inadvertent omission Chinese Govt currency regulations). Hong Kong cross rate plus 90% of difference between Hong Kong rate and open market rate for dollar drafts. Official rate plus 95% of difference between official rate and open market dollar rate derived as a cross rate based on gold price obtained by dividing local open market price of gold per ounce by 50. This particularly appropriate for west China posts.

Suggested formulae are purposely complex for purpose of negotiating with Chinese Govt. Experience during informal discussions with representatives Central Bank in July-August has indicated greater psychological acceptance rate indirectly based on open market when relationship expressed indirectly.

Embassy also expects request provision rate determination for each individual transaction to be reached Shanghai, with certification by Treasury Attaché but at separate rate for and in amount necessary to meet requirements of each outpost separately. Local currency funds would then be remitted by TT to Central bank branch in outpost for payment to Consulate.

Sent Dept, repeated Shanghai 888.

STUART

893.515/10-748: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, October 7, 1948.

[Received October 7—7:41 a. m.]

2153. Reaction to August 19 currency reform moved into another phase in Shanghai during this last week with retail buying spree on part of salaried and laboring classes. Besides indicating decreas-

ing confidence or possibly even complete loss of confidence in gold yuan currency by those classes which has been Chiang Ching-kuo's main asset to date, present unrestrained purchasing comes as natural and not unexpected result of coincidence several factors: (1) Delayed response to news [of] fall of Tsinan; (2) extensive conversions of foreign exchange and gold in last few days before end of September, together with regular end of month payrolls, placed large sums of local currency in hands of general public who in 6 weeks since conversion began had had neither considerable extra cash nor incentive to spend; (3) latter supplied by statements of impending rationing of daily necessities, announcement of new taxes on luxury items, particularly tobacco and rumors of general upward readjustment of prices; (4) police registration and godown inspection has eliminated possibility of investment in semi-wholesale lots of industrial commodities and other items not necessarily for personal use previously standard procedure in hedging against inflation; (5) buying of Shanghai's fixed price and earmarked merchandise by profiteering Yellow Ox gangs during last 2 weeks for sale at higher prices in unpoliced rural areas outside Shanghai served as stimulus.

Favored in present run on stores are cigarettes, silk, wool, and cotton piece goods, knitting wool, shoes and ready-made clothes, canned goods and in general all items of imported nature which people know are irreplaceable in foreseeable future.

Purchases of cloth have been restricted by economic police to 5 yards of cotton and 3 yards of silk per 3 months on presentation residence certificate. Stores are opening late and closing early to reduce outgo of goods; some have attempted to close up tight in spite of police prohibition with arrests resulting.

We doubt if volume of merchandise presently being cleaned off shelves constitutes any really considerable portion of such goods available in city but event shows that mass of people here are now at least partially aware of impossible future of currency and are following same protective course of action more quickly adopted by merchants and industrialists who invested larger sums in real estate and jewelry.

Situation is indeed gloomy and in the absence of any real reform or progress of Government in basic matters of taxation and budgeting we can see nothing but increasing trouble ahead. Scheduled rice rationing in Shanghai will probably not be met this month; coal is critically short and cold weather is only a month off; the war goes badly. Chiang Ching-kuo is now on the defensive and only rear guard actions are to be expected from hereon.

Sent Department; repeated Nanking as 1644.

893.50 Recovery/9-2248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 12, 1948—6 p. m.

1433. For Emb and Lapham from State and ECA. Dept and ECA have given careful consideration economic financial developments China and to subjects referred Embtel 1748, Sept 22 repeated Shanghai 838.

Feasibility redistribution China Aid Act funds considered Dept when new currency measures were announced but rejected for reasons discussed Dept's memo August 30⁹⁰ this subject airpouched Emb Sept 27. ECA concurs this view and comments below. Redistribution considered involve 3 possible steps (a) acceleration whole ECA program provide maximum flow imports next 3 months; (b) abandonment capital reconstruction and replacement phase program in favor increased imports not only of food, as Emb suggests, but also fuel, raw materials, etc., and (c) diversion 125 million Section 404 (b) China Aid Act from military procurement to imports of such goods.

Steps (a) and (b) would require flow of aid goods considerably above rate contemplated by Congress and should exhaust ECA appropriation by end 1948. Administrator has taken position no request should be made Congress in January for deficiency appropriation ECA programs. Steps (b) and (c) inconsistent with legislative history China Aid Act and appropriations thereunder. Moreover, commitments already made and in process against \$125 mil appropriation represent major portion this fund.

Dept's policy with respect to silver loan for currency stabilization already explained House and Senate foreign affairs committees in unreleased statement of last February,⁹¹ copies of which air pouched Emb Depins 165 dated Aug 13, 1948.⁹² Reference statement does not deal explicitly with use of silver for purposes envisaged by Emb. However, general considerations apply, and in absence Congressional authority funds would not be available to acquire silver for China. Use of ECA funds to acquire silver coins would not be consistent with Congressional intent. Treasury stabilization fund use considered inadvisable. In any case, Dept seriously doubts feasibility provide silver for Govt expenditures as temporary measure. Treasury concurs.

Finally it does not appear possible benefits such steps as could be taken would warrant drastic action required.

Dept understands Emb has been preparing with assistance Casaday and Parker detailed analysis of new financial measures and prospects

⁹⁰ Memorandum by Mr. Paul H. Nitze, p. 396.

⁹¹ See footnote 67, p. 399.

⁹² Not printed.

success new currency. Dept desires have such analysis in hand as soon as possible. [State and ECA.]

LOVETT

893.50/10-1548: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 15, 1948—6 p. m.

[Received October 15—9:27 a. m.]

1920. China August 19 economic reform appears now to be hastening to its denouement. Efforts and gestures of last 2 months may well soon be forgotten and will be back on basis of the open printing press and all but open hedging and speculation in foreign exchanges and commodities. (Black-market trading now out of hand). With few exceptions, as public utilities fixed, prices are fictions. In Shanghai, where enforcement started off spectacularly and where control has been most stringent, there is now a noticeable lack of zeal and decreasing effectiveness on part of police. The several really big names who were early arrested are still in confinement but their trials are dragging on through protracted adjournments and appeals. Chiang Ching-kuo's heralded plans for an industrial resurgence, the "second phase" of the August 19 program, have just been announced; they are uninspiring and follow same old pattern of "conservation of foreign exchange" and concentration of authority in Central Trust and trade guilds. Accompanying registration of industrial commodities and inspection of warehouses tapering off with no apparent results.

China note issue now probably in neighborhood of GY 1.25 billion which represents a quantity of money say 5 times as great as that in circulation on August 19. This money is not going back to the Government in taxes nor into production enterprise but rather is accumulating and idle in the cities building up the inflationary pressure which has recently been evidenced by:

(1) Shanghai's last week retail buying spree which has now spread to other cities stripping shops of their exposed goods; (2) Increasing unavailability in all cities of daily necessities except under the counter and at prices far above fixed levels; (3) Short-term interest rates so low as to be practically negligible by Chinese standards (i. e., 4 per cent per month); (4) Reestablishment of "organized" black markets in gold bullion and US currency.

In Peiping and Tientsin where police surveillance has been only nominal, gold is selling for GY 1000 per ounce and US dollars at GY 16 compared to the respective official quotations of GY 200 and

GY 4. In Canton the HK dollar is up in past week to GY 1.25 compared to the official .75. In Shanghai where to date operators have been most circumspect, there is now a good volume of business in currency at GY 6 to 7 with TTs bringing about 20 percent premium; shopkeepers are beginning to again quote and surreptitiously to accept US dollars; volume of telephone calls is this week picking up showing resumption of black-market transactions pretty much on "normal" basis.

With the concurrent discouraging military developments, it seems to us impossible that the Government much longer can continue to imitate Canute before the economic tide. It appears equally unlikely that it can publicly abandon the program on which so much was staked. What is more likely is that we are seeing the slackening of the pretence of enforcement and a yielding full rein to economic forces which at the moment are so precariously held in check.

Sent Department 1920, repeated Shanghai 946.

STUART

124.935 : Telegram

*The Acting Secretary of State to the Ambassador in China (Stuart)*⁹³

WASHINGTON, October 15, 1948—9 p. m.

1459. From State and Treas. Complicated formulae suggested for possible future negotiation re embtel 1817 Oct 2, also your tel 1901, Oct 13⁹⁴ appear likely to create cumbersome and protracted problems of rate determination for each individual transaction, especially as it is contemplated that procurement be centralized in Shanghai. Decentralization of procurement and use of a simple procedure considered possible of negotiation at proper time in view procurement arrangements in effect for North China posts prior to August currency conversion. State and Treas fully sympathetic with wisdom advance authorization to meet possible contingencies of break in currency and authorize Embassy within its discretion as to proper timing to negotiate arrangement as follows:

A. Purchase in each city from Central Bank branch or agent of local GY requirements at rate equivalent to 95 percent of local open market rate for dollar drafts, or if above unacceptable,

B. Direct purchase in each city in open market of local GY requirements, using dollar drafts or, if necessary, dollar currency.

You should urge acceptance of *a* above because foreign exchange accrues to Government.

⁹³ Repeated to the Consul General at Shanghai as telegram No. 1776.

⁹⁴ Latter not printed; it reported an informal agreement with the Governor of the Central Bank of China to permit the Consulate General at Mukden to make its own local exchange arrangements (124.05/10-1348).

Implications for ECA special deposit account will be subject subsequent cable.⁹⁵

Embassy and Casaday comments requested. [State and Treas.]

LOVETT

893.50 Recovery/10-1948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 19, 1948—9 a. m.

[Received October 19—12:03 a. m.]

1930. For Lapham and Casaday. Embassy intended but apparently failed to make clear that action recommended reference ECA program in its 1748 of September 22 was only step (a) listed in second paragraph Deptel 1433, October 12. In light position reported taken by Administrator against any January deficiency request in this, door appears effectively shut.

Embassy was familiar with Department position regarding silver loan for currency stabilization. Our thought, however, was not silver loan for currency stabilization but a suggestion for emergency and interim bolstering of Nationalist soldiers' will to fight by provision troop pay and army procurement in traditional hard money form. However, absence authority and funds for such purpose as reported in your telegram under reference likewise appears to rule out this possibility.

Reference final paragraph urtel under reference, Embassy and Treasury Attaché have been attempting to keep Washington fully informed developments in currency picture.

Tempo of events has been too rapid to lend value to any detailed analysis new financial measures. Moreover, such study seemed unnecessary in light our considered judgment at outset and subsequent repeated belief that prospects of success new currency were nil once brief honeymoon was over.

Please pass to Treasury and ECA.

Sent Department, repeated Shanghai 951.

STUART

124.05/10-1048: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 20, 1948—6 p. m.

[Received October 21—2:29 a. m.]

1950. For Department and Treasury. Acting on authority contained Deptel 1459, October 15, repeated Shanghai as 1776, Casaday

⁹⁵ Not found in Department files.

and Merchant called on Dr. Hsu Po-yuan, Acting Minister of Finance, on morning of October 19. In brief we told him that we had reluctantly reached the inescapable conclusion that the depreciation in the purchasing power of the gold yuan had now reached such a point that it was imperative the US Government receive a more realistic rate of conversion with respect to all official expenditures in China. Accordingly we stated that we were instructed to request a realistic rate for each post. For obvious reasons we stated that we would consider such a realistic rate the local open market rate and we left the impression that if we failed to reach an agreement along these lines we would be forced to make our own arrangements locally. Dr. Hsu was aware of the problem but emphasized its gravity to the Government and stated that the decision in all probability would be made by the Prime Minister. He promised to discuss the matter immediately with his Minister and Governor O. K. Yui of the Central Bank. He further expressed the hope that he would be able to give us an answer by the evening of October 20.

That same afternoon we discussed the problem with Dr. Tung Ling of Foreign Office and informed him of the opening of our negotiation with the Ministry of Finance. Tung appeared shocked that we felt the situation had reached the point where a special arrangement was considered necessary. He emphasized the blow to Government morale which acceding to our request would produce and beseeched us to consider waiting "a few more weeks" before pressing our request.

Not having heard from Dr. Hsu by late afternoon October 20, we telephoned him. He informed us that the matter was under most careful and serious consideration but that it would be impossible to give a reply until October 25 or 26. We asked him if an earlier answer would not be possible but he replied that while he would do his best he felt it was improbable.

After full discussion within the Embassy, it was thereupon decided that it would be tactically unwise to take any further action or approach the Prime Minister directly until after hearing Dr. Hsu's reply the first of the week.

Sent Department, repeated Shanghai 963.

STUART

893.5151/10-2848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1948—3 p. m.

[Received October 29—9:58 a. m.]

2025. On October 26 Finance Minister Wang Yun-wu in reply to Merchant's⁹⁶ query stated that Prime Minister had reluctantly

⁹⁶ Livingston T. Merchant, Counselor of Embassy in China.

agreed that morning to the institution of a special exchange rate for US Government expenditures in China (reference Embtel 1950, October 20, repeated Shanghai 963). Finance Minister went on to say all conversions would have to be centralized in Shanghai and that rate would be 8 to 1. Following brief discussion, Finance Minister was informed that this rate was inadequate to meet our problems and would be entirely unacceptable to Washington.

Morning October 27 Casaday and Merchant discussed matter further with Dr. Hsu Po-yuan, Vice Minister of Finance, flatly stating that while appreciative their efforts 8 to 1 rate was not realistic and in consequence we were being driven to unpalatable but necessary alternative of making our own arrangement. We pointed out that our objective from outset was to assure continuous receipt by Chinese Government US dollars arising these transactions. We reemphasized reason for seeking local rates and further appealed to his cupidity by informing him imminent arrival Task Force 38 Tsingtao containing 11,000 sailors with US dollars 2 million burning hole in their collective pocket. With surprisingly little further argument Dr. Hsu asked what we would consider a satisfactory rate which we described as full open market rate as agreed by Central Bank Governor and US Treasury Attaché for each important locality. Dr. Hsu thereupon asked us to discuss the matter same evening with Dr. S. Y. Liu, Acting Governor Central Bank (O. K. Yui has been ill and not expected return to work for week or longer). In our presence Dr. Hsu set appointment hour with Liu and we inferred from his conversation that he was being instructed to reach agreement with US.

Evening October 27 Casaday and Merchant discussed matter with Dr. Liu who quickly met our main points. Substance agreement follows:

1. All conversions to be concentrated Shanghai with exception Tsingtao where, as convenience to US Navy, local Central Bank manager will exchange US currency on spot for gold yuan at rate agreed for that post in Shanghai.

2. Effort will be made minimize multiple rates by original experiment setting separate rates for 3 areas, i. e. north, central and south. We left open increase beyond 3 rates if wide discrepancies develop making averaging inequitable.

3. Mukden to continue make its own local arrangements.

We are preparing circular instructions all posts re mechanics and we have informed Service Attachés, AAG⁹⁷ and ECA successful conclusion agreement and its general outline. We recognize arrival of agreement with Central Bank on rate at each separate future conversion may entail difficult negotiation particularly in view inadequate and at times conflicting reports as to black-market rate at any time.

⁹⁷ Army Advisory Group.

Attitude Government officials including S. Y. Liu, however, appears reflect genuine desire to accommodate us. Moreover, having established principle full rate applicable we do not plan in individual future negotiations to haggle over pennies. Despite these apparent risks and disadvantages, we nevertheless are satisfied arrangement more satisfactory than link to Hong Kong cross rate or any complicated percentage formula.

Chinese Government understandably sick over necessity this special arrangement which is acknowledgment failure currency reform August 19. We will make every effort ourselves to maintain secrecy its existence and similarly enjoin other beneficiaries.

In foregoing we have not specifically brought in applicability to surplus property funds because (1) we felt to do so might imperil success this negotiation and further extend period extreme hardship re staff and operating expenses, (2) we believed successful conclusion this agreement would lay irresistible groundwork for later extension to surplus property and (3) surplus property program currently inactive in so far as present need for additional gold yuan funds are concerned.

We will exchange letters with Central Bank and Finance Minister confirming our agreement.⁹⁸

Please pass Treasury.

Sent Department 2025, repeated Shanghai 1002.

STUART

893.5017/11-148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 1, 1948.

[Received October 31—9:33 p. m.]

2276. Chinese Government altered entire plan for control economy initiated August 19. Prices essential commodities and daily necessities unfrozen. This includes raw materials. Wage of workers to be readjusted with reference to needs. Public utility rates to be increased in keeping with costs operation.

Government agency to revamp prices cotton yarn, cloth, sugar, coal and salt on basis prevailing costs. Foodstuffs to be purchased and sold at open market prices. Rationing program 6 major cities to be continued. Details follow by airgram.⁹⁹

Department 2276, repeated Nanking 1725.

CABOT

⁹⁸ In telegram No. 2036, October 29, 5 p. m., the Ambassador in China reported that the arrangements would apply to ECA gold yuan expenses in China (893.5151/10-2948).

⁹⁹ Airgram No. A-974, November 1, not printed. In telegram No. 2048 of the same date, the Ambassador summarized actions taken by the Executive Yuan on October 31 and predicted that the "gold yuan henceforward will duplicate CNO toboggan."

893.5151/11-248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 2, 1948—11 a. m.

[Received November 2—12:18 a. m.]

2287. For State and Treasury. In absence of immediate contrary instructions, Embassy and Treasury Attaché *in extremis* will construe Deptel 1459 of October 15 to Nanking, repeated Shanghai 1776, as authority to make own local arrangements for acquiring gold yuan. Cabinet crisis, with both Prime Minister and Finance Minister having handed in resignations, has resulted in situation in which Chinese are unwilling [or] unable to honor conversion agreement reported in Embtel 2025 of October 28, repeated Shanghai 1002. Governor Central Bank maintaining agreement requires ratification by Executive Yuan whereas Acting Finance Minister Hsu maintains agreement should not be referred to Executive Yuan since matter falls entirely within competence of Central Bank.

Sent Dept 2287, repeated Nanking 1731.

CABOT

893.50/11-948 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 9, 1948—4 p. m.

[Received November 9—12:40 p. m.]

2353. During past week businessmen, laborers and farmers may have all attempted to seek out again those halting facilities of commercial intercourse which they knew in the pre-August 19 era (and which were possible only because of a mutual cognizance of day-to-day depreciation of CNC), yet it is most apparent now that dislocations which came about in this 2½ months have created a grave situation. Businessmen are saying each day things could not possibly get worse and yet we are seeing marked deterioration each day rather than any sort of recovery. At moment Shanghai is shocked by doubling and tripling of prices within hours.

Shopping spree for consumer goods has petered out with some fresh goods on shelves, but stocks limited and prices tentative, because it is not possible to decide just where to pick up again parabolic curve of price advances which was interrupted on August 19 and because there is in air an awareness and fear of riot and looting.

Trade between Shanghai and its rural areas has not been reestablished. Plans of Chiang Ching-kuo (now resigned¹ and departed)

¹ The resignation of Chiang Ching-kuo took place November 7.

to match value of incoming food and raw material with outward shipments of manufactured goods were never even fully developed even on paper. Altho neither ECA stocks on hand or current Chinese procurements were adequate to fill out October rice ration obligations, yet underpricing policy maintained at Chinese insistence has not been abandoned and farmers continue hold their rice. Thus no rice available today in Shanghai even in response to offers in neighborhood of GY 1200 per picul, or 20 cents per pound at BM rate of moment. Failure of business to revive also apparent in import-export lines where some form of linked foreign exchange is again rumored but which would now come very late in game; exports have dwindled away during past month and imports, although ostensibly advantageous now from profit point of view, are pursued most cautiously in view of military hazard and consequent possibility of total loss of cargo.

A "critical" point is anticipated next Monday when mid-month wage payments are due and workers demanding food, not money. Equity and necessity wage increases has already been acknowledged by most employers who, on October 30 when increases were still illegal, gave employees "loans" amounting generally to something like 100 percent of that month's salary. From survey representative prices ConGen would estimate that cost of living is certainly now ten times greater than on August 19; sample increases are: rice flour and pork 25 times, eggs 19 times, edible oil 17 times, cotton yarn and cloth 10 times, slack coal 6 times, soap, matches and kerosene 4 times. Laboring groups are likely to be more than just vocal if mid-month cost of living index (due to be reinstituted) is much less than that figure, but on other hand it is not seen how employers can pay even that much. Public utilities here, for instance, have been authorized rate increases of only some 300-400 percent over August 19 rates, at which they were even then losing money. From another aspect it may also be physical impossibility to drastically increase wage payments; this is the matter of tightness of money. Central Bank is veritably unable to supply all money being requested by commercial banks. An American bank for instance reports that it yesterday requested GY 50,000 and got only 10,000 (US dollars 333 at BM). This shortness of cash and now general appreciation of rapid deterioration of value of GY have together driven short term interest rates up to neighborhood of 90 percent per month, a point never reached even in CNC days.

Sent Department 2358, pouched Nanking 1782.

CABOT

S93.5151/11-1048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 10, 1948—5 p. m.
[Received November 10—10:01 a. m.]

2166. In light thoroughly disorganized economy China with gold yuan cascading hourly and acting on authority implied by absence as yet reply to Shanghai ConGentel 2287, November 2, repeated Nanking 1731. Embassy has reluctantly authorized all Consulates China to make own local arrangements through recourse to black market for gold yuan requirements. With informal agreement of Central Bank, Mukden and Tihwa have been operating this basis. Treasury Attaché has been instructed inform Central Bank of our appreciation Bank's efforts cooperate on basis informal agreement of October 29, 1948, but that Bank will understand necessary under present conditions each post possess freedom to make its own arrangements locally.

STUART

S93.50/11-1248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 12, 1948.
[Received, November 12—1:53 a. m.]

2394. In first positive action in economic field since unfreezing of commodity prices on November 1, Government yesterday announced official devaluation of gold yuan to rate 20 to 1 US dollar. At same time possession of foreign currencies and gold and silver made legal and also their use in licensed import transactions. Use in private domestic trading apparently remains illegal. As today Chinese national holiday, there is no immediate reaction on part business circles. Tight money situation has been a most important factor during last several days with interest rates up to 500% per month. This has tended to reduce black market rates for foreign currencies and has depressed a few commodity prices. Many difficulties are anticipated in making mid-month wage payments on Monday. Rice continues more or less unavailable but it is stated that emergency supplies due next week to tide over till larger ECA-sponsored shipments arrive.

Inform Commerce, Treasury, Agriculture and Labor.

CABOT

S93.51/11-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948.
[Received November 12—3:53 a. m.]

2182. Official Kmt organ Nanking yesterday again carried several reports that high-ranking Chinese Government official disclosed that

Foreign Minister Wang Shih-chieh had had discussions with General Marshall for new loan from US; that negotiations regarding loan are still being carried on both in Paris and in London. Foreign Minister was said to have expressed opinion that aid should be extended to China as soon as possible and it should be treated as seriously as US aid to Europe. Foreign Minister claimed to have stressed equal importance military and economic aid. This news despatch prominently headlined "a new American loan to China", followed by second headline "it is reported important decision already reached".²

Same paper carried several items quoting reports from London, Paris and Washington concerning recent discussions between Secretary State and T. F. Tsiang, member of Chinese Delegation to UN Assembly.³ London despatch said "important decisions regarding new plan of US aid to China" were reported taken over past 4 days in course of these discussions. Same despatch added that according to well-informed source new aid plan envisaged US \$400,000,000 for economic aid and \$600,000,000 for military aid.

Sent Department 2182; repeated Shanghai 1089. Department pass [to] Paris [as No.] 9 for UNDel.⁴

STUART

893.515/11-1248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948—2 p. m.

[Received November 13—4: 15 a. m.]

2187. Lower Yangtze valley area relative other parts country continues experience greatest loss confidence in national currency and most precipitous price climbs. Cities further distant immediate hostilities—e. g., Canton, Chungking, Tihwa—seem generally experience less abrupt changes. Peiping, Tientsin, Tsingtao continue on more stable level than elsewhere. Mukden now standing class by itself, reports Communist depreciation national currency to gold yuan \$750 to US \$1 and favorable confidence in US dollars.

Now most difficult pin down exchange and money rates or prices generally in Nanking or other cities Yangtze valley because anarchic economy characterized by individual transaction prices. US dollar Nanking apparently quoted between 50 and 70 gold yuan to US \$1 past few days, although Embassy itself not engaged specific transaction. Isolated reports ranged high as 100 to US \$1.

² See also pp. 173 ff., *passim*.

³ See memorandum by the Secretary of State, November 9, p. 197.

⁴ United States delegation to the third regular session of the United Nations General Assembly which convened at Paris on September 21.

Nanking November 10 reached depth pessimism and disorderliness in streets and market places unprecedented since return Government from Chungking.⁵ General expectation had been that economic reform measures November 1 would release flow food other goods into Nanking-Shanghai area temporarily at least relieving demand pressures. Such expectations almost completely unfulfilled, however, as shops kept doors closed and rice and cloth unavailable. Rice extremely difficult obtain for almost 2 weeks and so rapid has been deterioration gold yuan that merchants become less and less willing to receive it in exchange their wares. Rioting reached peak November 10 primarily in and around rice shops although some vegetable and fruit markets looted. This has convinced apparently reluctant authorities declare martial law Nanking which took effect 11 p. m., November 10; move expected have a temporary sedative effect upon populace. November 11 generally quiet. Chief police Nanking states rice now moving into city, after purchase by Government from wholesale merchants partly with gold yuan, partly textiles. ECA also plans release large amounts textiles and kerosene on Nanking market as Nanking-Shanghai US gold yuan money rates far above those reported from other regions China except Tihwa where 43 to 1 reported November 8. Rates for Shanghai (as Department will be aware from reports that post) generally parallel Nanking as both cities increasingly anticipate early Communist domination.

In general, appears demand US dollars declining slightly because Chinese as whole consider material possessions including silver dollars more suitable hoarding and use under possible Communist regime. Tightness gold yuan currency additionally discourages advances US dollar gold yuan quotations. While Mukden report indicates Communists willing accept US currency, Chinese populace here may assume Communists will set poor price on it and are attempting its disposal.

[Here follows discussion of foreign exchange rates and other economic matters in various Chinese cities.]

STUART

893.5151/11-1248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 12, 1948—3 p. m.

[Received November 12—8:59 a. m.]

2395. For State and Treasury from Casaday. ReContel 2287 to Department, repeated Nanking as 1731, November 2.

⁵ On May 1, 1946.

1. Formal confirmation our understanding never received from Central Bank owing partly Cabinet crisis and continued illness both Governor O. K. Yui and Acting Governor S. Y. Liu. However, on basis verbal confirmation given Merchant and Casaday by S. Y. Liu just before he became ill, we had been negotiating special rates for Army, Navy and State Department posts and actual purchases and remission of funds have taken place as follows:

[Here follows account of specific exchange rates obtained and related comments.]

2. On November 11 Consulate General Shanghai and all outposts received authorization from Embassy to be exercised at discretion local head of post, to acquire local currency requirements by sale US currency or drafts on best terms available or to pay individual, including alien staff, in US currency. Casaday instructed urgently inform S. Y. Liu or other responsible Central Bank official this decision. Since S. Y. Liu still sick, Casaday verbally informed Albert Shao afternoon November 11 who said he would inform S. Y. Liu at once.

Shao apparently not surprised nor displeased at news. He said in fact such arrangement probably less embarrassing to Central Bank than prior arrangement which had caused Central Bank to become besieged with requests for "special" deals by other organizations, especially various United Nations groups, missionary organizations and other foreign Consulates and Embassies. Albert Shao said the Central Bank could truthfully say it did not have special deal with anybody and could disclaim any knowledge how American Government agencies acquiring their funds. He also said that in event individuals were paid in US currency perhaps Central Bank should take some step stop recent arrests of US agency employees or to secure their quick release if arrested.

3. However, Albert Shao said nothing about new official rate of 20 to 1 announced later last night and carried in press this morning. Under new regulations no longer illegal for people possess gold, silver and foreign currencies although still illegal to "deal" in same. (Summary new regulations being forwarded separately.⁶) Possibly Shao supposed US Government agencies would automatically support new official rate as we have done in similar circumstances in past but he said nothing about it and tone of conversation was otherwise.

4. Consulate General and Embassy assuming in absence instructions from Department to contrary, authorization granted in Embtel 1070 to Shanghai November 10⁷ and Embcirtel same date⁸ still holds good. *A priori* no reason to suppose new rate, which definitely unrealistic at

⁶ See telegram No. 2394, p. 428.

⁷ Not found in Department files.

⁸ Not printed.

outset, will measurably reduce present chaos or for long retard process economic deterioration. Consequently, feel discretion given posts in this matter no less essential merely because of new official rate 2 days ago when authorization granted.

5. Uncertain whether verbal notification of authorization to make local arrangements given Central Bank yesterday by Casaday will be viewed by Central Bank as automatic abrogation of our October 29 understanding. Casaday assumes his notification likely to be so viewed by Central Bank which would mean Army, Navy and USEFC stuck with 20 to 1. Decided not press Central Bank today for its views on this matter nor on question in item number 3 above.

6. Understand Army, Navy requesting authority from Washington to make own arrangements locally similar that just issued by Embassy to State Department posts. No such possibility for USEFC, however, and seems likely we must endeavor continue or reestablish some specially negotiated arrangement for that organization.

Sent Department 2395, repeated Nanking 1814. [Casaday.]

CABOT

893.5017/11-1548: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 15, 1948—7 p. m.

[Received November 15—7:45 a. m.]

2415. Indications that vital commodities will be shortly in greater supply have caused easing of tension. No rice riots reported in past several days. (Details food situation subject of ConGentel 2414.⁹) However, with announcement this morning new C. O. L.¹⁰ index at 810 percent above August 19 levels, it appears Government has traded one crisis for another. Seriously critical physical cash shortage precludes payment wages in full due today. Management's primary concern last week in getting rice supplies for distribution to employees is now transferred to problem of raising cash supply to meet greatly increased payrolls. In view cash crisis employers have been given 10 days within which to make payment. Industries who failed meet rice stockpiling problem last week and who are in weak cash supply position are particularly vulnerable. This afternoon 20 percent premium being paid for cash and black market on US currency has come to standstill.

Government conducting terrific psychological offensive, flooding press with reports decisive military successes and claiming adoption new monetary measures have strengthened gold yuan and are directly

⁹ Not printed.

¹⁰ Cost of living.

responsible for price slumps. Foreign and Chinese communities, however, continue regard such Government reports with skepticism.

Sent Department; pouched Nanking 1829.

CABOT

893.5151/11-1648: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 16, 1948—1 p. m.

[Received November 16—5:40 a. m.]

2421. State and Treasury from Cassady. Reourtel 2379 [2395,] November 12, repeated Nanking 1814.

1. Saturday, November 13 Army, Navy and USEFC wanted funds urgently. S. Y. Liu still then at home ill and all other responsible Central Bank officials in Nanking. Finally reached S. Y. Liu by telephone at his home who confirmed that in Central Bank's view notification given Albert Shao by Casaday on November 11 as per section 2 reftel constituted an automatic abrogation of our verbal agreement for a realistic special conversion factor. However, in view urgency our needs Liu agreed to allow Army and Navy to purchase that day from Central Bank at 35 to 1 (which was last previous rate that had been negotiated for Shanghai under arrangement) and allow USEFC equivalent of US \$25,000 at same figure. These transactions satisfactorily consummated on Saturday and presumably will constitute last transactions under our former special arrangement except for USEFC concerning which S. Y. Liu agreed to talk to Casaday further this week.

2. Meanwhile Central Bank officials claim to have not yet received any authorization or instructions from Nanking implementing new regulation including new official rate of 20 to 1 announced in morning newspapers November 12 (see section 3 reftel). Appointed banks in Shanghai say they have customers willing to do business at new rate but Central Bank having received no authorization from Nanking has issued none to appointed banks.

Last night November 15 S. Y. Liu who no longer sick and who just returned from quick trip to Nanking told Casaday 20 to 1 "might be" the new official rate but that new linking systems somewhat similar to that tried in June and July (certificate system) will be instituted in very few days and that implementation of new official rate announced November 12 will be held up until new regulations announced.¹¹

¹¹ In telegram No. 2523, November 24, 5 p. m., the Consul General at Shanghai reported that a Central Bank circular of November 22 cited 20 to 1 as the official rate (893.5151/11-2448).

3. Severe shortage local currency here and State Department posts and Army, Navy clamoring for GY despite Embassy authorization to pay all employees in US currency. With our special arrangement no longer operative and still impossible but [*buy*] from appointed banks at other than 4 to 1 there is no alternative to negotiating drafts on black market.

Deal arranged for ConGen Shanghai yesterday at 28 to 1 for US \$15,000 draft but proceeds can be furnished only over period of 4 or 5 days. Prospective purchasers of drafts not extremely difficult to locate and arrangements being made to simplify this on strictly confidential basis but under present conditions purchasers having extreme difficulty in furnishing actual GY notes.

Sent Department; repeated Nanking 1833 for Merchant. [Casaday.]
CABOT

893.5151/11-248: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart) ¹²

WASHINGTON, November 17, 1948—7 p. m.

1645. Following for record is text telegram drafted Treasury Nov 9 but inadvertently delayed handling Dept:

"Dept and Treas considered proposal advanced as alternate A Deptel 1459 Oct 15 most preferable arrangement but authorized alternate B as measure to be adopted with agreement ChiGovt if acceptance alternate A proved impossible. (ReConGentel 2287 Nov 2 rpt Nanking 1731). However, if Emb and Treas Attaché consider reasonable time for consideration of original proposal by ChiGovt has elapsed and that there is no immediate prospect implementation agreement reported Embtel 2025 ¹³ Emb authorized at its discretion make own local arrangements for acquisition gold yuan and give its sanction similar action by consulates. Suggested in this event all direct procurement be handled by Emb and Consulate financial officers in consultation Treas Attaché with staff members enjoined from individual local currency procurement.

Dept requests at least informal notification to ChiGovt of direct action, even though formal agreement not contemplated. Further, after arrangements direct procurement put into effect Emb should make every effort practicable in current market situation to reach agreement with ChiGovt for arrangement which would provide GY at rate satisfactory to Emb and by which foreign exchange would accrue to ChiGovt."

Above authorization intended confirm arrangement Emb proposed ConGentel 2287 Nov 2. However, Dept realizes conditions have since

¹² Repeated as telegram No. 1956 to the Consulate General at Shanghai.

¹³ October 28, p. 423.

gone bad to worse and notes Emb has authorized payment individuals U. S. dollar currency. Dept discussing such use dollar currency Treas but meanwhile sees no alternative present arrangements.

LOVETT

893.5151/11-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 23, 1948—8 p. m.

[Received November 24—4: 17 a. m.]

2304. Embassy believes foreign exchange clearance certificate plan announced by Executive Yuan November 21 and transmitted verbatim in Embtel 2290 of November 23¹⁴ is constructive in conception. It should encourage exports now languishing and could contribute to increased domestic production by easing entrance needed spares and components. Crucial question is method of administration. If there is no loosening on grant of import licenses or if Central Bank intervenes itself in market for certificates, then artificially depressed demand for certificates can hold gold yuan value down to levels where incentive to export is lost as was case with abortive exchange surrender certificate plan of early summer. Another crucial question is extent to which Central Bank dollar reserves will be in fact released for imports and determination of rate at which such exchange will be sold for gold yuan. On balance Embassy mildly hopeful that this plan, as conscious move in direction free enterprise and realistic exchange rate, will produce benefits.

Embassy less hopeful of tangible benefits from Economic Coordination Board which is composed substantially same membership as CUSA¹⁵ which organization it largely overlaps. Operational Committee established under Board may provide executive coordination and drive but we find it difficult to believe that it can exercise more power than can be derived from the Board itself. Latter in turn is in effect a subcommittee of Executive Yuan which, for present at least, under Wong Wen-hao has ceased to function as a Cabinet.

Re Finance Minister's¹⁶ statement¹⁷ it is obviously desirable to secure maximum coordination between ECA imports and those financed by Chinese. Implication that commodities from these two sources are being pooled may minutely nourish confidence.

¹⁴ Not printed.

¹⁵ Council for United States Aid, the Chinese agency responsible for administration of the American aid program.

¹⁶ Hsu Kan, appointed November 10.

¹⁷ On export-import link system and the Economic Coordination Board quoted in telegram No. 2290, November 23.

Foregoing steps do represent energetic effort attack certain major problems of Chinese economy now nearly prostrate. Encouraging in their development has been constructive informal ECA advice and T. V. Soong's intervention behind the scene.

Sent Department, repeated Shanghai for Lapham as 1152.

STUART

893.5151/11-2448 : Airgram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 24, 1948.

[Received December 2—10:53 a. m.]

A-1038. The new Finance Minister, Hsu Kan, has reversed the precious metals provisions of the August 19 Currency and Economic Reform Program. Effective November 11, it is no longer illegal to possess gold and silver coins and bullion. Beginning November 22, the public is permitted to buy gold from the Government at a price of GY 1,000 per ounce (995.5 pure), but the buyer must also deposit an additional GY 1,000 with the Central Bank for 1 year, drawing interest at the rate of 2% per annum. Government sale of gold bullion will accordingly sterilize, for the time being at least, GY 2,000 for each ounce of gold sold. Anticipated effectiveness of the gold selling program is further increased by expectation that gold bars will be hoarded rather than circulated as currency. Gold bullion is being sold as bars in denominations of 1/2, 1, 3, 5 and 10 ounces.

Silver dollars are being sold at GY 10 apiece, plus a deposit of additional GY 10 by the buyer; thus sterilizing GY 20 for each silver dollar purchased.

The sale of gold and silver by the Government is one of the most drastic changes inaugurated by the new economic policy in an attempt to restore public confidence in the GY by absorbing redundant purchasing power and permitting the Chinese public again to use precious metals as a means of protecting their current savings.

It is now generally agreed that the August 19 Currency and Economic Reform Program stimulated the inflationary pressure by forcing the public to exchange their accumulated savings in gold, silver and foreign currency for GY. Since China does not have a sound investment market, the unwilling seller was accordingly forced to buy real estate, precious stones, jewelry, silks, and durable commodities generally for his GY in a desperate attempt to protect his savings in the face of rapidly rising GY prices. The present Finance Minister is apparently attempting to reverse this entire process by selling the precious metals back to the public.

It should be added, however, that while the current program is designed to absorb redundant purchasing power it also has the corollary effect of wiping out a large percentage of the original savings of the Chinese public, because those who were forced to sell their gold to the Government during the August 19 Reform Program received only GY 200 for each ounce of gold; but they must now relinquish GY 2,000 when repurchasing the same ounce of gold.

CABOT

893.50/11-2948

The Ambassador in China (Stuart) to the Secretary of State

No. 484

NANKING, November 29, 1948.

[Received December 14.]

The Ambassador has the honor to enclose a copy of an English translation¹⁸ of the text of "Supplementary Economic and Financial Measures Adopted by the Executive Yuan" as announced by the Government Information Office, October 31, 1948.

These Supplementary Measures comprise: (1) adjustment of economic control by allowing free marketing of foodstuffs and prohibiting unauthorized interference of local governments with the flow of food and other commodities, and continuing basic food rationing programs in six principal cities including Nanking and Shanghai; by readjusting prices of important commodities and rates of public utility and communications enterprises in consideration of cost of production; and by stamping out speculation, hoarding, and furtive transactions; (2) assistance to important productive enterprises to replace equipment and raw materials, and to obtain productive loans from government and commercial banks; (3) readjustment of the treatment of government employees, school teachers and workers with reference to their needs; and (4) increase of national revenue by readjustment of rates of the commodity tax and other ad valorem taxes by taking commodity prices into consideration.

These Measures were intended to cope with the economic predicament arising from the purchasing spree which occurred early in October, as costs outstripped controlled prices, resulting in later October in ultimate business stagnation, suspension of factories and widening of the gap between demand and supply. These Measures have not, however, succeeded in remedying shortcomings of the August 19 Economic Measures, nor did they contribute much towards the improvement of the grave supply situation obtaining in October. They in fact seem to mean little except that they are regarded by people

¹⁸ Not printed.

generally as official recognition of the unfreezing of the August 19 ceilings, which were in fact superseded in many places before the promulgation of these Measures.

893.515/11-3048

The Ambassador in China (Stuart) to the Secretary of State

No. 487

NANKING, November 30, 1948.

[Received December 14.]

The Ambassador has the honor to enclose a copy of the text¹⁹ of "Revised Regulations Governing surrender of Gold, Silver and Foreign Currencies" as promulgated and made effective by Presidential Mandate on November 11, 1948.

According to these Regulations, people are permitted to hold gold, silver, silver coins and foreign currencies, but may carry on transactions only in silver coins and gold or silver ornamental articles; holders of gold, silver, silver coins and foreign currencies may, besides exchanging them for Gold Yuan Coins or Gold Yuan Notes at the Central Bank of China or its designated banks at stipulated rates, use them to purchase 1947 (36th Year) U. S. Gold Loan Bonds issued by the Chinese Government or deposit them in the Central Bank and use such deposits to pay for imports. Persons are permitted to carry out of the country 2 ounces of gold ornaments, 20 ounces of silver ornaments or foreign currencies equivalent in value to US\$100; persons carrying gold, silver or foreign currencies into the country, should either exchange them for Gold Yuan Coins or Notes or deposit them with the Central Bank of China; tourists bringing in gold, silver, or foreign currencies may declare holdings before the Customs authorities, hand them over to the Central Bank for custody and reclaim them when they depart from the country.

These Regulations have, temporarily at least, had some effect in stabilizing commodity and monetary prices. They have, however, been severely criticized in that the very strict enforcement of the August 19 Economic Measures deprived the law-abiding and loyal middle class of its widespread savings of gold, silver, and foreign currency which were largely surrendered while these Revised Regulations have, strange to relate, protected wealthy holders of such assets, who are reported to have failed to surrender their holdings despite the government's ruling to the contrary.

¹⁹ Not printed.

893.50/12-148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 1, 1948—3 p. m.

[Received December 1—7:26 a. m.]

2588. Market trends shifted frequently during month unfrozen prices beginning November 1 as kaleidoscopic events impinged highly sensitive market. Depleted inventories and redundant purchasing power produced partial period skyrocketing prices.

Consequent high price level and improved inventory situation produced acute money stringency with fantastic interest rates reaching 500 per cent per month. Price trends basic foods reversed consequentially.

Third phase began November 22 when new Finance Minister Hsu Kan inaugurated Government selling program precious metals (ref-Airgram A-1038, November 24). Queues prospective gold bar purchasers increasing daily with Government apparently adopting delaying tactics in selling operations.

Fourth phase in incipient stage as mounting apprehension concerning military situation central China causes Shanghai residents revise personal and economic security plans. Previously acquired hoards durable commodities no longer desirable method of protecting accumulated savings face advancing Communist armies. First severe impact fourth phase experienced local real estate market which dropped 50 per cent in few days accentuated by planned or actual evacuation tenants and owners. Automobile market collapsed quickly with large number being exported Taipei and Canton. Fourth phase extending to household goods and durable goods generally. Articles doubtful utility, value and security during an emergency are beginning to feel depressing effects advancing Red Armies.

Inform Commerce.

CABOT

893.5151/12-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1948.

[Received December 16—12:10 a. m.]

2528. According to notice posted Central Bank Nanking, sales gold and silver dollars have been suspended from this afternoon pending

enforcement revised measures under promulgation by Executive Yuan governing future sales policy.²⁰

Sent Department 2528, repeated Shanghai 1270.

STUART

893.5151/12-2848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 28, 1948.

[Received December 28—11:14 p. m.]

2639. Comparative stability prices of past 30 days abruptly broken after Government suspended gold-silver sale December 24 pending revision measures governing such sales. Primary factor in suspension was complete disorder of mobs in Shanghai seeking to buy gold. General price levels Nanking and Shanghai up average about 50 percent over week ending December 20. Commercial circles attributed sudden price leap not only to suspension gold-silver sales which forces gold yuan into commodity financial black market but also to persistence peace rumors causing many Yangtze Valley merchants give up wait-and-see policy and become more active.

Premier Sun Fo²¹ reportedly attached much significance to recurrent price fluctuations and held meeting principal Cabinet members for discussion counter measures. Executive Yuan has not promulgated revised measures governing gold-silver sale, however, and Ministry Finance spokesman held December 27 that Government would not increase gold and silver sale price nor deposit formerly required as had been rumored.

[Here follows information on prices and import restrictions in China.]

Sent Department, repeated Shanghai 1320.

STUART

893.5151/12-3148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1948—2 p. m.

[Received December 31—8:19 a. m.]

2675. Past week has seen throughout Nationalist China another explosive rise in prices and black market rate for US dollar. In lower

²⁰ In telegram No. 2541, December 16 (893.5151/12-1648), the Ambassador in China reported that revised measures covering sale of gold and silver to the public had been approved by the Executive Yuan the previous day. They placed various restrictions on sales, particularly a limit of 1 teel (1.1 ounce) of gold to each adult purchaser every 3 months. In telegram No. 2613, December 23, 5 p. m. (893.5151/12-2348), the Ambassador reported a Central Bank estimate that 275,000 ounces of gold had been sold between November 22 and December 15, resulting in a withdrawal of 500,000,000 gold yuan from circulation.

²¹ Sun Fo's nomination as President of the Executive Yuan was approved by the Legislative Yuan on November 26.

Yangtze Valley black market US dollar rate now above 130 gold yuan. Price most commodities in Shanghai and Nanking has approximately doubled in past week. Discontinuation gold sales to public²² and uncertainty re Sun Fo Cabinet policy apparently reached [*removed*] temporarily [*temporary lid*].²³

Gold yuan introduced August 19 has now lost about 97% of its value in terms of US dollars, after holding at or near par till early October.

There is no reason to suppose Nationalist Government is capable arresting galloping inflation which, as hitherto, reaction uncontrolled resort to printing press for payment Government expenses. Loss of various armies has resulted in some reduction military budget, but reduced production, loss of confidence in government and general confusion have concurrently reduced tax revenues.

Sent Department 2675, repeated Shanghai 343.

STUART

²² In airgram No. A-320, December 30, the Ambassador reported Executive Yuan resolutions the previous day to resume sales of gold and silver on January 5, 1949. The resolutions provided for the levying of a flexible equalization fee in addition to the sales price and required deposit. (893.5151/12-3048)

²³ Bracketed insertions in this sentence based on Embassy file copy of telegram.

UNITED STATES ECONOMIC AID TO CHINA

I. FORMULATION OF PROGRAM FOR AID TO CHINA; CHINA AID ACT OF 1948

[Discussions on the proposed China Aid Program were begun in the Department in the fall of 1947. On November 28, 1947, Mr. Melville H. Walker, Assistant Chief of the Division of Investment and Economic Development, prepared a memorandum on Economic Aid Program for China "as a basis for reaching preliminary agreement within the Department as to the character and magnitude of the program contemplated." It called for an aid program of \$400,000,000 for the period April 1, 1948, to June 30, 1949. Some \$300,000,000 was to cover essential imports, also known as balance-of-payments aid. The remainder was to be allocated for urgently needed reconstruction projects. This program specifically excluded any provision for direct military aid and currency stabilization.

On December 30, 1947, Mr. Clinton T. Wood, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), sent a memorandum on China aid to the Secretary of State. Appended was a statement which set the amount of funds required for the program at \$485,000,000 of which \$435,000,000 was to be allocated for essential imports and the remainder for reconstruction projects. The period covered by the program was advanced to the eighteen months beginning January 1, 1948, "because the course of developments in the financial situation of China has resulted in a more rapid disappearance of financial resources than was anticipated."]

893.51/12-3047

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Assistant Secretary of State for Economic Affairs (Thorp)

[WASHINGTON,] December 30, 1947.

I believe that the proposed magnitude of balance of payments aid to China (\$435 million) should be weighed very carefully and seriously on two counts. One is its probable inadequacy to accomplish the minimum objective of the program—to prevent further rapid deterioration in China. The other, is its evident inadequacy to enable the Chinese Government to purchase indispensable imports of mu-

nitions and banknotes without exhausting its foreign exchange reserves.

Congress will be inclined to accept the Department's assurances that aid of the proposed magnitude will hold the economic line in China. If such aid fails to achieve this objective, responsibility will be laid at the Secretary's door. Since the level of imports projected under the aid program is substantially less than that which China has been receiving during the last two years, the proposed volume of aid per se affords no promise of improving the situation. Moreover, the export figure (\$312 million over 18 months) used in calculating the balance of payments' deficit is admittedly highly optimistic. Judging by past Chinese performance, exports should be no more than \$255 million for the period, a difference of \$57 million. In view of present prospects for continued military reverses, which will further stimulate inflation and retard exports, past performance probably is a poor guide to the future. Thus, the present export estimate appears unrealistic, and \$255 million might well be regarded as a maximum. Under the present program, \$57 million or more of essential imports would have to be purchased out of existing official assets, or not purchased at all.

The suggestion that aid funds earmarked for reconstruction projects (\$50 million) should be transferable to balance of payments aid if the deficit is greater than estimated would provide a solution to this problem if we were willing to admit that there probably will be nothing available for reconstruction projects. However, the psychological and economic importance in China of making a start towards reconstruction indicates that this solution is undesirable. At the very least, I believe a more realistic export estimate should be used in calculating the deficit. It seems to me that it is much more important to apprise Congress of the actual dimensions of the China problem than it is to avoid criticism of inconsistency with the Secretary's initial and tentative reference to \$300 million.¹

It can be anticipated that members of Congress will be concerned with the extent to which the aid program will make it possible for the Chinese Government to purchase imports of munitions without exhausting its foreign exchange assets. According to present estimates, \$37.5 million of banknotes and at least \$45 million of munitions will have to be purchased with official assets. If, in addition, the shortfall in exports is absorbed by assets, the total depletion of Government holdings over 18 months would be \$139 million. This would reduce official gold and dollar exchange, estimated at about \$200 million as of

¹ Statement made on November 11, 1947; see *Interim Aid for Europe: Hearings before the Senate Committee on Foreign Relations, 80th Cong., 1st sess.* (Washington, Government Printing Office, 1947), p. 43.

January 1, 1948, to roughly \$60 million by the end of the program on June 30, 1949. While there is nothing sacrosanct about these holdings, this reduced level would represent their virtual exhaustion since it is a minimum requirement for working foreign exchange balances. Public knowledge in China of this depletion, which would require export of gold reserves, would probably produce panic reactions to offset positive effects of the U.S. aid program.

It is important that some means be worked out to forestall this course of developments. The adoption of \$255 million as a maximum realistic estimate for exports would alter it only in part. There appear to be three possible procedures. One is to ask Congress to appropriate funds for a program of military assistance. A bill to authorize such assistance was introduced in the 79th Congress.² However, the consequences of the adoption of such a program by the U. S. Government are too serious and too obvious to require elaboration. A second would be to include munitions among government imports in the aid program balance of payments. Although the economic character of the aid program would thus to some extent encompass this war material aspect, nevertheless, such a procedure would carry with it most of the political consequences referred to above. A third procedure would be to use an export estimate on the low side of the range of realistic possibilities, possibly \$200 million, so that an improvement in exports would provide means for purchase of munitions on Chinese Government account. It could then be maintained that the Chinese Government had within its power of exertion the means of making possible the purchase of war materials from the U. S. and other sources. At the same time, the U. S. could ensure that surplus material was sold to China at generously low figures.

The third procedure would appear to offer obvious advantages. In any case, it is of great importance that we present a program which stands a good chance of accomplishing its minimum professed objectives. Responsibility for that minimum and anything beyond it would then rest primarily with Congress and the Chinese Government.

893.51/1-248

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, referring to the Ambassador's Memorandum of November 24, 1947,³ regarding the matter of economic and financial aid to

² S. 2337, introduced June 13, 1946, and H. R. 6795, introduced June 14, 1946, *Congressional Record*, vol. 92, pt. 6, pp. 6773 and 6979, respectively.

³ *Foreign Relations*, 1947, vol. VII, p. 1223.

China, which stated among other things that the Chinese Government would be prepared to send to Washington a small technical mission, and to the Secretary's Memorandum in reply dated December 12, 1947,⁴ indicating that there should be consultation between the United States and the Chinese authorities with respect to various aspects of the proposals being formulated by the Department of State, has the honor to inform the Secretary that Dr. David Ta-Wei Yui,⁵ Minister of Communications, and Mr. Pei Tsu-Yee, Executive Member of the Board of Directors of the Bank of China, have been appointed by the Chinese Government as Technical Representatives on the above-mentioned mission.

Messrs. Yui and Pei are expected to leave China on or about January 7th for the United States. The Ambassador will communicate with the Secretary again upon their arrival.⁶

WASHINGTON, January 2, 1948.

893.50 Recovery/1-348

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] January 3, 1948.

Since the Wednesday meeting on China in your office, certain adjustments have been made by OFD⁷ in the Chinese balance of payments estimates, particularly by the inclusion of such outpayments as for currency and by the scaling down of the export figure from \$312 million to approximately \$275 million. I understand that the adjusted deficit comes out at \$510 million for 18 months, as compared with the previous estimate of \$435 million. This adjustment meets the first point of my memorandum of December 30, namely, that we should use a more realistic export estimate in order to be more certain of covering the probable deficit in the balance of payments for non-military transactions. It would also relieve to a minor extent the drain on official foreign exchange holdings by the inclusion in expenditures of banknote imports.

⁴ *Foreign Relations*, 1947, vol. VII, p. 1230.

⁵ Also known as General Yu Ta-wei.

⁶ In a note of January 10, the Chinese Ambassador indicated that the Minister of Communications was unable to leave China and that the technical mission would be composed of Pei as Chairman; Kan Lee, Adviser to the Ministry of Foreign Affairs, as Secretary-General; and Hung Shen, Deputy Director of the Department of Railways and Highways in the Ministry of Communications; L. F. Chen, Director of the Office in the United States of the National Resources Commission of China and Paul Bao-Jen Chu, a monetary expert (893.51/1-1048).

⁷ Office of Financial and Development Policy.

However, this approach does not tackle the fundamental problem which, as you indicated at the meeting in your office, might best be met by some offset of munitions against Chinese exports. No acceptable justification for any particular military figure can be found. The application of a percentage offset equivalent to the ratio of domestic military expenditures to total budget has difficulties because there is no necessary correlation in China between the two. There is no figure available from the Chinese and to go to them for one would invite the impossible. The Department of the Army submitted on April 3, 1947 to a SWNCC^s working group an estimate of \$336 million to "provide the weapons and equipment for 25 modern ground divisions, a strong air force, and the fuel and ammunition required for a year's operation" sufficient "to drive the Chinese Communists out of Manchuria and eastern China". It is not likely that the Army would furnish an estimate smaller than that if asked for one now.

Support before Congress for any quantitative estimate of China's needs for munitions imports would carry the disadvantage of appearing to commit the U. S. to making possible their acquisition by the Chinese Government. It seems to me that this implicit commitment could be minimized if we were to maintain that no good estimate can be made in the circumstances and that all of China's export proceeds should be available for special Chinese Government transactions (including diplomatic expenditures and debt service, as well as military procurement), and for building up foreign exchange reserves against the time when currency stabilization becomes a practical possibility. It would be reasonable to hold that these foreign exchange proceeds are adequate for such military expenditures as China would and can make. Moreover, this approach would emphasize the Chinese Government's responsibility for military success or failure by making it within that Government's power of exertion to increase its foreign purchases of munitions, and/or strengthen its reserves for ultimate currency stabilization.

The procedure suggested above would call for an aid program of about \$700 million over 18 months, plus whatever funds we wish to make available for reconstruction projects. The Chinese Government would be responsible for expenditures out of export proceeds of about \$150 million included in the earlier balance of payments and for the purchase of banknotes as well. Thus, export proceeds available for munitions imports and augmentation of foreign exchange reserves might range between \$75 million and \$150 million, depending on China's success in promoting exports. The probability, of course, lies in the direction of the lower figure.

^s State-War-Navy Coordinating Committee.

893.00/1-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 3, 1948—10 a. m.

[Received January 3—10 a. m.]

10. Our lack of information re development of Aid to China Program is becoming increasingly embarrassing as time for its presentation to Congress approaches. We realize that details cannot be communicated to us until definite decisions have been taken and we have gotten word to Gimo⁹ that action on his request for supreme economic advisor¹⁰ cannot [be expected until over-all plan has been formulated. We assume that likewise we cannot]¹¹ expect action on Gimo's request for additional military training centers until over-all plan has been formulated.

We would appreciate it nevertheless if we could be informed now of any decisions which have been taken re procedure. We are inclined to believe that it would be preferable to consult Chinese prior to presentation of program to Congress but if for domestic or other reasons that course is not followed then we think it highly desirable that Chinese at least be given advance knowledge of program. To do otherwise after Chinese Government request for aid through its Ambassador in Washington¹² would cause Chinese leaders loss of face and prejudice success of program. We hope also that this info could be given thru us in order that we can assure advance information to Gimo.

STUART

893.50 Recovery/1-548

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] January 5, 1948.

Attached is a statement prepared by Mr. Magill¹³ setting forth what I understand to be the FE¹⁴ position on issues involved in formulation of the China Aid Program. It occurs to me that it might be useful in any decision that is being reached by the Secretary. We

⁹ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

¹⁰ For the Generalissimo's request for appointment of a civilian advisory group, see telegram No. 2381, December 12, 1947, *Foreign Relations*, 1947, vol. VII, p. 1231.

¹¹ Bracketed insertion made on basis of Embassy file copy of telegram.

¹² See memorandum by the Chinese Embassy, November 24, 1947, *Foreign Relations*, 1947, vol. VII, p. 1223.

¹³ Robert N. Magill, of the Division of Chinese Affairs.

¹⁴ Office of Far Eastern Affairs.

stand ready to put it in any form you think necessary. In any case, it furnishes a record of FE's views.

A[RTHUR] R. R[INGWALT]

[Annex]

Memorandum by Mr. Robert N. Magill of the Division of Chinese Affairs

[WASHINGTON, undated.]

The manner in which an economic program for China is formulated is likely to determine whether or not the Department will have to meet openly in the near future the issue of direct military assistance to China. It can be anticipated that Congress will draw that issue squarely if it finds that the economic aid program does not make it possible for China to purchase substantial imports of munitions without exhausting its official foreign exchange reserves. It might, of course, be logical for the Department to support direct military aid if the amount required to accomplish agreed upon objectives were subject to approximate measurement, and if the U. S. were willing to bear the magnitude of aid required and to accept the consequences which might accompany or follow the success or failure of the endeavor. However, none of these assumptions are given, and it is therefore important that the U. S. not become committed to a program of military assistance for China. It is also important, for reasons of domestic and foreign policy, that neither the Department or the U. S. Government openly repudiate the possibility of military aid.

Considerations which should determine the issue of military assistance should also apply, at least in part, to policy decisions regarding the extension of economic aid to China. However, the question of economic aid for a limited period has already been decided. Fortunately, the political consequences of extending economic aid are not likely to be so serious as those which might accompany a policy of military involvement, particularly since a program of economic aid can be presented in such a manner that responsibility for its success and justification for its continuance or renewal lies primarily in the degree to which the Chinese Government rises to the requirements of the situation.

It is apparent that an economic aid program, the size of which is measured in terms of China's ability to meet essential civilian imports out of its export proceeds, will not satisfy those elements of Congress which are concerned with China's military requirements. Moreover, insofar as there are possibilities for holding the economic line and initiating economic reform measures within China, such possibilities

may well be denied if the military position of the National Government continues to deteriorate rapidly or if panic results from the exhaustion of the Government's foreign exchange holdings. It appears essential, therefore, that an economic aid program be devised which takes account of these considerations, although its public presentation should minimize any implied commitment by the U. S. to underwriting China's military requirements.

A program which undertakes to provide a cushion for military imports by using admittedly generous estimates of China's foreign exchange expenditures and receipts probably would be labeled a fraud and slashed by Congress, in which case the Department would be held to blame. Use by the Department of an estimate of Chinese military imports, to be procured with current Chinese foreign exchange earnings, would require its justification before Congress and thus imply that the Department is committed to making its realization possible.

The only alternative appears to be the adoption of an approach which would result in an aid figure substantially larger than that thus far proposed, and which might be difficult to put through Congress. Essentially, the presentation of this alternative would recognize that the Chinese Government inevitably will apply its export proceeds to certain major expenditures for which it is undesirable that the U. S. assume responsibility by including them in a balance of payments projection underlying an estimate of American financial aid. These expenditures fall into two categories. The first consists of such items as maintenance of diplomatic and consular functions, foreign debt service and banknote imports, all of which Congress would be delighted to ignore. The second consists of direct military imports, requirements for which are not subject to approximate estimate. It could then be pointed out that, while the low level of Chinese exports could not be expected to cover both Government and commercial transactions, nevertheless their proceeds would be adequate for expenditures in the first category and should be sufficient to permit China to purchase such military imports as it would and could procure.

More important, however, it could be argued that China would thus have entirely within its own power of exertion and decision the possibility of increasing, through promotion of exports, its purchases of munitions or, alternatively, of civilian imports necessary to combat inflation and to aid reconstruction, provision of which under the U.S. aid program is admittedly on the basis of austerity requirements. A variant to this argument might be that any surplus acquired from increased exports could be used in building up China's foreign exchange reserves for eventual currency stabilization, although such a proposal might not fare so well with a Congress concerned with eliminating surpluses. It would be recognized, of course, that pros-

pects are poor for an increase in China's exports and that only by strenuous efforts and effective use of American aid could progress be made.

This approach would call for an aid program to cover all of China's essential civilian imports calculated on an austerity basis, which would bring the total amount of aid for 18 months to about \$700 million, plus whatever funds are included for reconstruction projects—possibly \$75 million. This program could be justified publicly entirely in terms of its economic assistance to the Chinese Government and people as affording them a respite from immediate crises during which they might initiate the measures necessary to lay the basis for eventual recovery. It would be held that responsibility for these measures, for normal foreign transactions of the Chinese Government, and for military procurement abroad and the course of the civil war rests entirely with the Chinese.

The program would have the added advantage of skirting altogether in its presentation a balance of payments analysis, thus avoiding the implication that the U.S. is committed to meet continuously China's deficit in its international transactions. The magnitude of aid proposed would represent a realistic appraisal of what is required merely to give some assurance of preventing further economic retrogression in China. This would have desirable educational effects in Congress and elsewhere, and responsibility for any failure to provide the funds required would then lie clearly with Congress.

893.51/1-648

*Memorandum of Conversation, by the Chief of the Division of
Investment and Economic Development (Havlik)*

[WASHINGTON,] January 6, 1948.

Participants: The Chinese Ambassador
Mr. Willard L. Thorp-A-T
Mr. Walton Butterworth-FE
Mr. Norman T. Ness ¹⁵-OFD
Mr. Hubert F. Havlik-ED

The Ambassador inquired as to: (1) the possibility of the immediate use of the \$18 million recently appropriated by the Congress for aid to China; ¹⁶ (2) the relationship of this amount to the funds previously authorized under the US Foreign Relief Act (P. L. 84 ¹⁷) and

¹⁵ Director of the Office of Financial and Development Policy.

¹⁶ Public Law 393, approved December 23, 1947; 61 Stat. 941.

¹⁷ Approved May 31, 1947; 61 Stat. 125. For correspondence regarding the foreign relief program under this act, see *Foreign Relations*, 1947, vol. VII, pp. 1293 ff.

(3) the possible amounts which might be provided for China in the recent Interim Aid Legislation (P. L. 389¹⁸). Mr. Thorp explained that under P. L. 84 an amount of about \$24 million was already programed and under way but might not yet have been committed. He further explained that the \$18 million recently appropriated by Congress for China aid was within the authority of P. L. 84, and that this brought the total appropriations to the limit of the full \$350 million authorized by this Act. He also pointed out that while the Congress had appropriated \$522 million for France, Italy and Austria, as compared with \$597 million authorized in the enabling act, it was not likely that the remaining \$75 million appropriated probably would not [*sic*] be appropriated, except perhaps in connection with European Recovery Plan. Mr. Thorp also explained that an amount of approximately \$25 million of U. S. Foreign Relief Funds appropriated in 1947 was earmarked by the U. S. to be held against matching contributions of other countries to the Children's Fund in accordance with a ruling of the Controller General.¹⁹ Consequently no part of these funds would be available for aid to any country under P. L. 84 unless at the last moment it appeared that some part had not been matched by contributions of foreign government.

The Ambassador then said that he would like to obtain information about the longer-term aid program, particularly as to the amounts proposed and the uses to which the funds could be put. Mr. Butterworth stated that Dr. Kan Lee had raised the same question with him and that the only reply that could be given at this time was that while the Department was anxious to place the program before the Chinese Government, it could not do so at present because the preliminary draft of the program was in the process of clearance within the Department and with other interested agencies of the US government such as the National Advisory Council and the Bureau of the Budget. Some decisions remained to be made, and until further progress was made, details could not yet be disclosed. The Ambassador inquired as to when the plan might be submitted to the Congress. Mr. Thorp indicated that this was uncertain, but that there was hope that it would be sent to Congress within the next two weeks. Members of Congress had indicated that in considering the European Recovery Program, and before finally acting on it, they would want to see the Chinese Aid Program. Consequently there was considerable pressure to have the program for China forwarded to the Congress for consideration.

The Ambassador inquired as to what kind of information the forth-

¹⁸ Approved December 17, 1947; 61 Stat. 934.

¹⁹ This was in the form of an interpretation contained in letter B-71150 from Comptroller General Lindsay C. Warren to the Secretary of State, November 19, 1947 (800.48 FRP/11-1947).

coming two-man technical mission should voice to this country. Mr. Butterworth referred to a previous conversation between the Ambassador and the Secretary²⁰ concerning the various aspects of the program, and emphasized that it would be most helpful if the Chinese Government could specify the measures of self-help that it would be willing to take, and the time table of such action. The Ambassador said that the Chinese Government was willing to outline a program looking toward financial and economic improvement, but it wanted particularly to be able to specify steps which could be taken promptly and effectively rather than a list of vague general aims. There followed a considerable discussion in which Mr. Thorp and Mr. Butterworth emphasized that in the case of aid to Europe, the US government expects the European countries to undertake steps of self-help which they have outlined in the CEEC report²¹ and that similarly we now desire to relate aid to a constructive program by the Chinese Government in all fields affecting the success of the program; that while the Chinese Government probably knew best what steps could be taken quickly and effectively, the provision of aid by the US would better enable it to undertake such steps. Mr. Butterworth referred to the problem of opening the Port of Hankow to foreign ocean transportation in order to make the most effective use of China's internal resources, and to maximize the use of available transportation facilities; this matter had been cited in a recent cable²² reporting in [on] a conversation between American officials and General Yu Ta-wei, Minister of Communications; and was an illustration of what might be looked into and suggested by the Chinese government. Mr. Thorp pointed out that there might be resistance to the Administration's proposals for aid to Chinese in some quarters of Congress, and that resistance which might arise because of doubts as to the economic prospects of China could be overcome in part by examples of constructive actions proposed and taken by the Chinese Government. The Ambassador referred to Dr. Kan Lee's paper²³

²⁰ Presumably November 13, 1947. This was reported in a memorandum of the same date prepared by the Director of the Office of Far Eastern Affairs, *Foreign Relations*, 1947, vol. VII, p. 1214.

²¹ Committee of European Economic Cooperation, *General Report*, vol. I (Washington, Government Printing Office, 1947).

²² Telegram No. 24, January 5, 6 p. m., not printed.

²³ Draft statement of the Chinese Government on American aid to China, handed to Mr. Butterworth by Mr. Kan Lee on January 5, for Department comments (893.50 Recovery/1-548). In a memorandum of January 13 (893.00/1-1348), Mr. Butterworth informed the Secretary of State that changes recommended by the Department were being kept at a minimum "since it is important that the statement be issued entirely on the responsibility of the Chinese Government". The more significant changes reflected the Department's thinking that "(1) a public reference by the Chinese Government to its requests for American aid would be desirable at this time, and (2) the implication should be avoided that the accomplishment of internal reforms, including military reorganization, is dependent upon their integration with American aid." The Secretary initialed the memorandum. For text of statement made by Premier Chang Chun on January 28, see note from the Chinese Embassy, p. 462.

on the subject of measures which it might undertake in connection with aid from the US. Mr. Thorp and Mr. Butterworth stated that they could not discuss it with the Ambassador until it had been studied adequately.

The Ambassador stated that the Chinese Government hoped that something could be done toward the gradual stabilization of the Chinese currency by means of Aid Program. He suggested that if the aid funds were used directly to strengthen the currency reserves, the effect would be to promote confidence in the currency and the psychological effect would be beneficial. What was sought was to retard the rate of depreciation, rather than to achieve stability in value at present. Mr. Thorp indicated that from the economic point of view, we looked at the program somewhat differently. The US funds would be used to finance necessary imports for China. The US could not now consider the sizeable program that would be required to pay for such imports and in addition build up reserves that would be necessary for stabilization. He pointed out, however, that the Aid program would in fact provide an inflation offset by putting in necessary goods from abroad. He added that the fight against inflation would be more effective if direct anti-inflationary measures, such as taxation, were applied. The Ambassador pointed out that action to check price increases or decrease currency in circulation would be much more likely to be successful if accompanied immediately by action to increase currency reserves. Mr. Ness indicated that the use of aid funds directly to bolster reserves as proposed by the Ambassador would be a radical departure from the manner in which the US government had been administering its other foreign aid programs.

893.00/1-1248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 12, 1948—6 p. m.

52. For your confidential info final decisions re China aid program have not yet been made by Secretary and thereafter proposed legislation will have to be reviewed by National Advisory Council and submitted to Bureau Budget before it is presented Congress. Accordingly it is not possible to send Emb at this stage authoritative info. It is suggested that pressure on part Chinese for details program (urtel 10 Jan 3, 10 a. m.) can be met by indicating Congress prior rights in receiving such a message from President. A tel containing sufficient data will of course be sent you for communication personally to Gimo and FonMin ^{23a} a day or so before public presentation.

^{23a} Minister for Foreign Affairs Wang Shih-chieh.

Question appointment technicians in connection with implementing aid program will form part of proposed legislation and no definitive action can be taken until at least attitude of Congress manifests itself. Incidentally it is not clear how Gimo's request for a "supreme economic adviser" and his suggestion of Blandford ^{23b} for that position (urtel 2241 Nov 15, 8 a. m.²⁴) jibes with his memo (urtel 2437 Dec 22, 11 a. m.²⁵) in which it is stated that ChiGovt wishes to employ its own American or foreign technicians. No doubt US will have to send to China additional personnel to act in a supervisory and advisory capacity in connection with aid program but these may well be very limited in number due to unavailability of experienced personnel. There are however two obvious and serious disadvantages to appointment of a "supreme economic adviser": First, there is basic question of how effective under present circumstances in China he can be and secondly, and more important, the strong implication that his presence would carry of continuing US responsibility for economic, financial and governmental situation in China, a responsibility which US cannot assume and which China and other countries must not be misled to believe has been or is going to be assumed.

This is no less applicable to the civil war. Consequently, activities Military Advisory Group ²⁶ must be carefully delimited and they are not regarded as constituting an integral part of aid program which is essentially economic in character. It is expected that decisions re certain changes in Military Advisory Group's directives and what additional military training centers can be appropriately authorized will be made before Gen Barr's ²⁷ departure.

Importance of considerations set forth above is reinforced by certain current indications that elements in ChiGovt are looking more to external assistance than to their own exertions in meeting China's problems and seem to be directing their efforts towards shifting to US responsibility for conduct and course of civil war, welfare Chinese people and efficacy regime.

MARSHALL

800.48 FAA/1-2148

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] January 21, 1948.

In the light of recent developments, both within and without the Department, I should like to expand somewhat on the suggestion

^{23b} John B. Blandford, American financial adviser to the Chinese Government, 1946-47.

²⁴ *Foreign Relations*, 1947, vol. VII, p. 1219.

²⁵ *Ibid.*, p. 1237.

²⁶ For correspondence on this subject, see pp. 239-270, *passim*.

²⁷ Maj. Gen. David G. Barr, who assumed the duties of Chief of the Army Advisory Group (AAG) in China on February 1, 1948.

contained in my memorandum to you of January 3, 1948. I have discussed this line of reasoning fully with Mr. Thorp and Mr. Wood.

The manner in which an economic program for China is formulated is likely to determine whether or not the Department will have to meet openly in the near future the issue of direct military assistance to China. It can be anticipated that Congress will draw that issue squarely if it finds that the economic aid program does not make it possible for China to purchase substantial imports of munitions without exhausting its official foreign exchange reserves. It might, of course, be logical for the Department to support direct military aid if the amount required to accomplish agreed upon objectives were subject to approximate measurement, and if the U. S. were willing to bear the magnitude of aid required and to accept the consequences which might accompany or follow the success or failure of the endeavor. However, none of these assumptions are given, and it is therefore important that the U. S. not become committed to a program of military assistance for China. It is also important, for reasons of domestic and foreign policy, that neither the Department or the U. S. Government openly repudiate the possibility of military aid.

It is apparent that an economic aid program, the size of which is measured in terms of China's ability to meet essential civilian imports out of its export proceeds, will not satisfy those elements of Congress which are concerned with China's military requirements. Moreover, insofar as there are possibilities for preventing more rapid economic disintegration and for initiating economic reform measures within China, such possibilities may well be denied if the military position of the National Government continues to deteriorate rapidly or if panic results from the exhaustion of the Government's foreign exchange holdings. It appears essential, therefore, that an economic aid program be devised which takes account of these considerations, although its public presentation should minimize any implied commitment by the U. S. to underwrite China's military requirements.

The proposed \$510 million aid program for current imports, as revised recently by OFD, would provide \$50 million more than the estimated 18-month deficit in China's balance of payments, which has been calculated on the basis of a severely restricted level of foreign expenditures. It is intended that this \$50 million would release an equivalent amount of Chinese export proceeds for military procurement and that this "cushion", together with China's existing official gold and dollar exchange holdings, would represent resources adequate to deal with the military problem. Such a position does not meet the argument that existing assets should be retained as a currency reserve for maintenance of confidence and for eventual use in currency stabilization. It is rapidly becoming untenable as Chinese official assets continue to be depleted to the point at which only gold

and working balances will remain. Moreover, incorporation in a balance of payments presentation of any precise figure for military imports would entail its justification by the Department, and a figure on the order of \$50 million would invite severe criticism as to its adequacy.

I believe that an acceptable alternative would be to abandon altogether, so far as public presentation is concerned, the balance of payments approach and to consider China's current foreign exchange receipts as being entirely available for special payments of the Chinese Government, including the purchase of munitions. This approach would recognize that the Chinese Government will inevitably employ a substantial portion of its foreign exchange resources for military procurement. However, it would argue that Chinese military import requirements are not subject to approximate estimate, and that expenditures therefor, as well as for such government items as debt service, foreign service functions and banknote imports, should be the exclusive responsibility of the Chinese Government. It should be pointed out that, while the present low level of Chinese exports and other current foreign exchange receipts is inadequate to provide for essential civilian imports, it would be sufficient for special government payments and for such military imports as the Chinese Government would and could purchase.

More important, it could be maintained that China would thus have within its own power of exertion and decision the possibility of increasing, through promotion of exports, its purchases of munitions and of civilian imports necessary to combat inflation and to aid reconstruction, provision of which under the U. S. aid program is admittedly on the basis of austerity requirements. It would be recognized, of course, that prospects are poor for an increase in China's exports and that only by strenuous efforts and effective use of American aid could progress be made.

This approach would call for an aid program to provide funds for all of China's essential civilian-type imports calculated on an austerity basis—estimated at \$650 million over 18 months—plus a proposed \$60 million for reconstruction projects, or a total of \$710 million. In the absence of further serious military reverses, China's foreign exchange receipts over 18 months should be sufficient, after itemized government expenditures have been met, to provide about \$116 million for munitions procurement, civilian imports in addition to those scheduled under the aid program, and unitemized financial services. If developments are favorable and vigorous efforts are made, it is possible that about \$176 million might be realized for these purposes.

Such a program should be justified *publicly* entirely in terms of

its economic assistance to the Chinese Government and people as affording them a respite from immediate crises during which they might initiate the measures necessary to lay the basis for eventual recovery. It would be held that responsibility for these measures, for normal foreign transactions of the Chinese Government, and for military procurement abroad and the course of the civil war rests entirely with the Chinese.

The magnitude of aid proposed would represent a realistic appraisal of what is required merely to give some hope of preventing further economic retrogression in China. This would have desirable educational effects in Congress and elsewhere, and responsibility for any failure to provide the funds required would then lie clearly with Congress.

893.50/2-648

Memorandum by the Chinese Technical Mission in the United States ²⁸

The Chinese Technical Mission, in coming straight from Nanking to Washington, desires to convey, on behalf of the Chinese Government, a note of urgency of the need of American aid. The present serious economic situation has its root in the devastation and dislocation caused by long years of war and is accentuated by the Chinese Communist rebellion and by the destruction brought about by the Communist sabotage. The Chinese Government feels that, in its fight against the spreading of Communism in China, it is contributing to the cause of democracy and world stability. In this effort, substantial external aid will help to facilitate and hasten the achievement of its task.

It is, of course, realized that the effectiveness of external help is conditioned upon the continuance of the efforts which have been made in adopting measures of self-help. The maximum result can only be obtained when the two are properly integrated. On the other hand, reasonably adequate external aid, by itself creating a favorable psychological condition, will facilitate the operation of measures of self-help.

When General Wedemeyer's mission ²⁹ visited China in the summer of 1947, the Chinese Government made available to his mission certain reports outlining the serious efforts that the Government had undertaken in the fields of economic rehabilitation. The facts embodied in these reports still stand. In addition, the Chinese Technical Mission submits the following summary of significant measures recently undertaken by the Government:

²⁸ Date of receipt in the Department not indicated.

²⁹ For correspondence on the mission in China of Lt. Gen. Albert C. Wedemeyer, United States Army, see *Foreign Relations*, 1947, vol. VII, pp. 635 ff.

1. In a period of unprecedented economic and military crisis, the Chinese Government has caused the new Constitution to be promulgated in its effort to promote democracy and democratic institutions, despite the many great difficulties hampering long-range political development. The election of the members of the National Assembly has recently been held, and the election of the members of the legislature will be completed shortly.

2. In formulating the 1948 budget, serious effort is made to cover the ordinary expenditures by usual kinds of revenue. Attempts are made toward the retrenchment of expenditures. The rate of indirect taxes has been raised to increase the yield. The income tax will be levied in advance in the form of tentative assessments, to be adjusted when final accounts are made available. It is hoped to enlist experienced American experts in the field of taxation to assist us in our effort to renovate and carry out a sound system of income tax and other forms of taxation. In the budget, the ordinary revenue and the ordinary expenditure are both estimated at \$27 trillion. Extraordinary revenue is placed at \$31 trillion, and extraordinary expenditures at \$69 trillion. While further inflation may upset the budgetary estimates, the effort is made to cover as much expenditure as possible by revenue.

3. In agricultural production notable improvement has been made in 1947 to increase the yield of cotton, and the amount of cotton available for mill use is estimated to be around one million bales in 1947, representing a 20-30% increase over the corresponding figure for 1946. The production of food crops is encouraged through the introduction of better varieties, better seeds, and more effective methods of insect control. Industrial recovery is reflected in the steady increase of industrial consumption of electric power. The industrial power consumption in the Shanghai-Nanking area increased 9.6 times from September, 1945 to September, 1947; in Wuchang-Hankow area 6 times and in the Canton area 7.5 times. In Formosa, a region which is fortunately free from Communist disturbances, the increases in production during 1947 as compared with September 1945 are as follows: rice, 1.6; sugar, 3.5; electric power, 5.2; cement, 4.8; coal, 7.4; and fertilizer, 8.4 times. Most of the industrial plants which suffered severe damage through wartime bombing are being restored rapidly to normal production.

4. Rehabilitation of communication[s] since V-J Day has always been a struggle between the reconstruction effort of the Government and the destruction by the Communists. The ledger, however, has not been altogether in the red. In 1947, 1870 Km. of railways and 3000 Km of highways were restored to operation; 50,000 Km of new air routes were opened for service; merchant steam vessels of all types reached a total tonnage of nearly one million, and improvement was effected in the postal and tele-communication services. Above all, in all these fields, the concept of public service has been strengthened among the rank and file of government workers, which will greatly facilitate future reconstruction work.

5. During 1947, the foreign exchange policy has been directed toward facilitating the improvement of exports and effecting a better balance in China's international payments. Since August, the ex-

change rate has not been pegged at a definite figure and has been allowed to move from time to time in accordance with market requirements. The trade situation has been brought nearer to balance than was previously possible. The adjustment of rates is made periodically to enable the movement of certain essential exports; notably, woodoil, minerals, and bristles. While the new policy has not proven wholly effective in eliminating the black market and in channeling China's emigrants' remittances through the Government, the new element of flexibility introduced in the system will, to some extent, prepare the way for the future adoption of a plan for currency stabilization. The conclusion of a financial and customs agreement with Hongkong in December, 1947, will, it is believed, substantially curtail inward and outward smuggling and the flight of capital.

6. To combat runaway inflation, the Government has, since November, severely restricted the granting of loans by both the governmental and commercial banks so as to contract credit. Such temporary measures of credit control are intended merely as the prelude to more fundamental reforms. A system of rationing of foodstuffs has been introduced in six major cities to combat the appreciation of prices.

7. The treatment of school teachers has been ameliorated in order to increase the efficiency of their work.

The Chinese Technical Mission is fully aware of the fact that, in spite of these efforts, the economic and financial conditions of the country have steadily deteriorated. Inflation is becoming more and more vicious and acute, and, with the continued drop in the value of the Chinese dollar, it is but natural that there goes a measure of political and social uneasiness which renders economic rehabilitation more difficult. But China is redoubling her efforts to cope with these various problems.

WASHINGTON, January 23, 1947 [1948].

800.48 FAA/1-2148

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] January 24, 1948.

On January 21, the basic issues of the China Aid Program were considered and discussed by Mr. Lovett, Ambassador Douglas,³⁰ Mr. Thorp, Mr. Wood, and myself. At the conclusion of the meeting, Mr. Lovett gave instructions to proceed with the program formulated by A-T, as he felt that, despite the considerations set forth in my memorandum of January 21 (copy attached, Tab A³¹), it would be unwise to approach Congress with an aid program of greater magnitude than that proposed by A-T (\$510 million to cover certain essen-

³⁰ Lewis W. Douglas, Ambassador in the United Kingdom.

³¹ *Ante*, p. 454.

tial civilian-type imports over an 18-month period and \$60 million for reconstruction projects—a total of \$570 million).

It is important, of course, that we present this program with full awareness of its implications in the light of probable developments, both in China and in this country. While \$510 million is a large sum, it will enable imports into China at considerably less than the level prevailing during the last two years. The effect of these imports will not be to reduce the rate of inflation, but merely to prevent the economic situation from deteriorating as rapidly as it otherwise would. Economic conditions, however, are as dependent upon the course of military developments as they are upon the level of Chinese imports. The present rate of deterioration of the military situation (see attached memorandum, Tab B ³²) is likely to be accelerated and result in increased economic disintegration despite the economic aid provided in this program.

It is intended that, in the presentation of the aid program, reference be made to the availability for military purposes of China's official foreign exchange holdings, and of such resources as might be acquired by China through increased exports. However, the facts are that China's gold and U. S. dollar holdings on January 1, of about \$200 million consist largely of minimum working balances, and gold held in China, the export of which might produce panic repercussions, and that the estimate used in projecting China's exports is about the best that actually can be expected. Furthermore, it has been recently learned informally from the Department of the Army that military stocks surplus to the Army's needs and available and suitable for transfer to the Chinese are very small. Therefore, the Chinese will of necessity be compelled to purchase military matériel at high market prices. Extensive cannibalization is now being practiced in the Chinese Army.

Thus it is apparent that the proposed program is more in the nature of an expanded post-UNRRA ³³ relief program than it is analogous to ERP ³⁴ or the Greek-Turkish aid program. The fact that it takes little or no account of the military situation is likely to have serious repercussions, both in China and in this country. In the former, its inadequacy will have a generally depressing effect and might contribute at a certain point to a Chinese attempt, as a move of desperation, to arrive at some kind of an understanding with the Soviets, despite their unfortunate experiences in the recent past (see personal telegrams to you from Dr. Stuart, Tab C ³⁵). In the United

³² Not printed.

³³ United Nations Relief and Rehabilitation Administration.

³⁴ European Recovery Program.

³⁵ Probably telegrams Nos. 2436, December 22, 1947, noon, *Foreign Relations*, 1947, vol. VII, p. 412, and 59, January 9, 1948, 2 p. m., *ibid.*, 1948, vol. VII, p. 21.

States, the nature of the program will lay you open to frontal attack for failing to recommend adequate assistance. An economic aid program designed merely to hold the line in China has already been widely discounted. This attack may also develop into a determined attempt to force, as a complement to the proposed economic aid program, a Military Aid Bill which if passed would shift to the U. S. responsibility for the course of the Civil War in China. Attached is newspaper comment illustrative of a current partizan attitude (Tab D ³⁶).

Accordingly, I have informed Mr. Kennan ³⁷ of the character of the program and of the implications of the situation as I see them, and suggested that the Policy Planning Staff make a draft for you of a statement which you might make at the initial Congressional hearing. Alternatively, it might be embodied in the Presidential message forwarding the program to Congress. I have not seen Mr. Kennan's draft which is under preparation.

893.50 Recovery/1-2648

Memorandum by Mr. Robert N. Magill, of the Division of Chinese Affairs ³⁸

[WASHINGTON,] January 26, 1948.

The Chinese Technical Mission, headed by Pei Tsu-yi, met on January 21 in Mr. Havlik's office. The discussion dealt mostly with technical points of information. However, Pei indicated a strong desire to know the general outlines of the Program and urged that examination of technical points not be allowed to hold up presentation of the Program. He offered to give the views of the Chinese Government, and did so along the following line:

The Chinese Government desires a four-year program amounting to \$1.5 billion, broken down as follows: first year, \$500 million; second year, \$500 million; third year, \$300 million; fourth year, \$200 million.³⁹ He said that if authorization of the program should be delayed, the Chinese Government would hope that \$60 million authorized under

³⁶ Not attached to file copy.

³⁷ George F. Kennan, Director of the Policy Planning Staff.

³⁸ Marginal notation: "This was returned from S/S [the Executive Secretariat] 2/4 with no initials".

³⁹ A formal aid program was prepared by the Chinese Technical Mission on January 27. In a memorandum of February 17 to Messrs. Butterworth and Ringwalt (893.50 Recovery/2-1748), Mr. Magill indicated the program had been submitted to the Department "a number of days ago." It proposed economic assistance totalling \$1,500,000,000 over a 4-year period, of which \$973,900,000 was to cover the 18 months through June 1949; and military assistance estimated at \$100,000,000 for the first year with amounts for subsequent years to be determined on the basis of military developments.

PL 389 could be appropriated for the first quarter of 1948. He indicated that the billion and a half figure would take care of relief and rehabilitation, and that attention would have to be given simultaneously to currency reform and military needs. Pei said that, as a banker, he himself was inclined to approach the problem of currency reform cautiously. He emphasized that any balance of payments calculation should take account of military imports and volunteered the figure of \$100 million for this purpose during 1948. He offered to make available a breakdown of this military figure, and it was my impression that this estimate was the firmest of the figures that he gave. Mr. Havlik, however, responded that he was interested only in the general magnitudes envisaged by the Chinese Government and did not encourage any further refinement of the military figure.

893.00/1-2848

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] January 28, 1948.

Since you talked with me on the telephone, I have obtained the attached statement from the Chinese Government⁴⁰ which was publicly issued in Nanking today. Accordingly, I suggest that you may care to question Mr. Tsu-yi Pei as to what specific measures the Chinese Government intends to take to implement these general undertakings, and when they propose to begin putting into effect such measures. Incidentally, this statement embodies the changes suggested by the Department which you approved.⁴¹

W. W[ALTON] B[UTTERWORTH]

893.00/1-2848

*The Chinese Embassy to the Department of State*⁴²

TRANSLATION OF THE STATEMENT OF GENERAL CHANG CHUN, PRESIDENT OF THE EXECUTIVE YUAN OF THE REPUBLIC OF CHINA, WHICH IS SCHEDULED TO BE RELEASED FOR PUBLICATION IN NANKING ON WEDNESDAY, JANUARY 28, 1948, AT 4:00 P. M.

"As a result of her suffering and losses during more than eight years of war and the subsequent Communist rebellion, China is now

⁴⁰ *Infra*.

⁴¹ See footnote 23, p. 452.

⁴² Handed to the Deputy Director of the Office of Far Eastern Affairs (Penfield) by the Chinese Minister (Tan).

facing unprecedented economic difficulties. In order to overcome these difficulties, the Chinese Government, in the light of the long history of Chinese-American friendship, has requested economic and technical assistance from the United States. It was with gratification that the Chinese Government noted the inclusion of China in the interim aid bill and the announced intention of the United States Government to take early action during the present session of the Congress to provide substantial aid for China. The Chinese Government fully recognizes that in order to secure the maximum benefit from external aid an adequate and practicable program of domestic measures of self-help is needed. This program should at the beginning lay stress on financial and economic measures of immediate importance which will be followed or accompanied by certain other reforms in the fields of general administration and military reorganization.

The main financial and economic reform measures which the Chinese Government intends to undertake are:

(1) Control and readjustment of government expenditures both in Chinese national currency and foreign currencies so as to realize all practicable economies.

(2) Improvement of the national, provincial and local tax systems and the administration thereof with the dual object of increasing the yield and placing the tax burden upon economic groups that are best able to pay.

(3) With a view to insuring greater efficiency in the performance of their duties, the treatment of civil servants as well as officers and men will be gradually raised. Simultaneously, a program will be enforced for the gradual reduction of government personnel.

(4) Strengthening and extension of control over the supply of essential commodities of daily necessity with a view to checking speculation and the abnormal rise of prices.

(5) In order to insure the maximum effectiveness of external aid, every effort will be made toward laying the basis for a more stable monetary system.

(6) Banking and credit systems to be reformed through the centralization of control in the Central Bank of China and the maintenance of a counter-inflationary policy.

(7) Promotion of exports through removal of obstacles to export movements.

(8) Improvement of import control, but as soon as conditions permit the emergency control measures shall be modified.

(9) Improvement of agricultural production and rural conditions and land reforms through the adoption of such recommendations of the China-United States Agricultural Mission ⁴³ as are suitable for early introduction.

⁴³ For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

(10) Rehabilitation of communications and essential industries as far as conditions permit in order to increase production and reduce dependence upon abnormal imports.”⁴⁴

711.93/1-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 29, 1948—6 p. m.

[Received January 29—2:20 p. m.]

181. We are perturbed by the implications we read into Deptel 52, January 12, 6 p. m. and feel that we have failed to create in the Department a realization of the practical problem which confronts US policy in China.

Basic problem facing US here is creation of conditions conducive to prolonged stability in eastern Asia. For creation these conditions it is essential that there be in China a government reasonably sympathetic with our aims in Far East and with American political concepts, and also capable maintaining itself without prolonged or even perpetual support. Of many possible alternative policies for attaining this end, the support and reform of the present Chinese Government would seem most practicable. This Government possesses certain attributes of legality, retains some authority and a modicum of popular support and is reasonably well disposed toward the US, so that if supported and reformed it would, to some considerable degree, meet our requirements.

While devising of specific means for supporting the Chinese Government is task for technicians, in framing concrete plans they must be guided by two over-all considerations. The first of these is that support for Chinese Government must include support in economic, military and political fields and that support in these separate fields must be concurrent and coordinated. We cannot stress too strongly fact that Government's military situation is critical and that Government is completely unable to regain lost ground or even maintain hold on areas now under its control unless effective military assistance is forthcoming.⁴⁵ Further, additional Government territorial losses will rapidly impair Government's political stability to point where it will lack capability of utilizing economic or political support. Second

⁴⁴ In a memorandum of January 30 (893.50/1-3048), Mr. Butterworth informed the Secretary of State that he had indicated to Mr. Kan Lee the Department's interest in the specific measures through which the Chinese Government intended to implement the Premier's statement. Thereafter, Mr. Pei informally submitted to the Department 10 reports each of which elaborated on one of the reform measures promised in the statement. These reports were forwarded to Mr. Butterworth by Mr. Ringwalt with his memorandum of February 17 (893.50-Recovery/2-1748).

⁴⁵ For Department's reply, see telegram No. 153, January 30, 1 p. m., p. 8.

and more important consideration in framing concrete means to support Government is Government inadequacy in terms of administrative ability.

In virtually all spheres of Government activity we have studied—military, political, economic and other—we find failures on part Government to effect improvements result largely from misfeasance, blunders, and mismanagement, rather than from deliberate malfeasance. This misfeasance in turn stems largely from lack of technical ability to devise general over-all policy needed in present situation and specific policies for specific situations, and also lack of grasp of administrative techniques to implement and execute policies.

In light above, we feel no program of US aid to China can possibly be effective if activated solely through present Government or native talent available to that Government. However, we feel that aid can be effectively applied through present Government administrative structure, provided we develop requisite plans, and, on advisory basis, supervise their implementation and execution.

We further feel that resources of Chinese Government, if properly mobilized and applied, are sufficient to effect improvement in situation. While further provision of material by US is undoubtedly required, aid in form of advice on planning and in administration is vital. It is precisely aid of this type that Soviets supply Chinese Communists through Soviet trained Chinese political, economic and military technicians. Also, this type assistance should decrease amount American matériel required and permit rational expenditure such matériel in support over-all program and specific projects. Concretely, this would entail provision of small staffs attached to highest echelons of certain sections of Chinese Government with the function of developing plans in conjunction with Chinese chiefs of sections, plus small group of personnel to report on activation and execution of plans. Some could be recruited direct by Chinese; some could be supplied and controlled by US.

We are fully aware that the above suggestions would involve a degree of responsibility. However, we wish to reiterate that unless responsibility is assumed, it is most difficult to see how situation here can be restored in our favor. Also, as regards responsibility for possible failure of Chinese Government to solve its outstanding problems, it is a patent fact that in the minds of most Chinese it is the US which keeps the present Government in power, and is, therefore, already implicated in current Government failure to function effectively. We have previously reported the current apathy of the Chinese people toward civil war and their great desire for early solution no matter which side is victorious. The present stalemate and prolongation of the conflict is attributed by both sides to our intervention. This will continue to be the case unless we pull out of China.

As our fundamental interests would appear to require a friendly Government in China, we cannot believe we would be warranted in pulling out of China at this time. This leads us inevitably to the assumption that we must take a more active part in the internal affairs of China and be willing to assume responsibility therefor.

The Chinese Government is well aware of its perilous state, well knows its administrative shortcomings and is most desirous of effective support. However, its leader, the Generalissimo, is a proud and stubborn man. Also, he is an unusually practical man. If some formula can be found which will assist him in resolving the practical situation which confronts him without loss of prestige, he will accept a large measure of outside control and we believe will cooperate heartily so long as he is convinced of a reasonable possibility of success. On the other hand, he is sufficiently proud that he would permit himself and the regime he has led so long to go down in defeat rather than accept aid under conditions which he considered unnecessarily derogatory to the prestige of China and himself.

Given this situation, there has been much searching of hearts among the politically realistic Chinese. Considerable doubt remains in many minds as to the amount and the effectiveness of prospective American aid. It is inevitable, therefore, that many Chinese have considered alternatives to continuing to resist Communism even with American aid. The alternative championed by the Generalissimo, which involves neither compromise with nor surrender to an alien ideology, is becoming increasingly unpalatable in Government circles. This has led many individuals into a search for a possible basis for peace with the Communists. Too many rumors to be ignored have been reaching us of late indicating that certain elements in the Kuomintang—CC Clique ⁴⁶ as well as Political Science group—have been speculating and taking soundings as to the possibility of Soviet mediation between the Communists and the National Government. From the Chinese point of view this seems the less desirable alternative, yet they may be driven to accept it if American aid is ineffective, inadequate, or late in coming.

STUART

S93.00/2-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 2, 1948—noon.

[Received February 2—2:20 a. m.]

195. In considering our 181, January 29, 6 p. m., Department may wish to consult our despatches 1144, December 6, 1947 ⁴⁷ and 28, Janu-

⁴⁶ Led by the brothers Chen Li-fu and Chen Kuo-fu.

⁴⁷ *Foreign Relations*, 1947, vol. VII, p. 387.

ary 23, 1948 ⁴⁸ on method of assisting Chinese to meet practical military problems confronting them.

STUART

893.50 Recovery/2-648

The Consul General at Shanghai (Cabot) to the Director of the Office of Far Eastern Affairs (Butterworth)

SHANGHAI, February 6, 1948.

DEAR WALT: Although I have been in the Far East but three weeks, I think that the sharpness of some first thoughts and impressions derived in that time may make them of some slight interest to you with regard to the China situation—even though they are backed by such a wealth of inexperience.

Immediately upon arriving in Shanghai I was struck by the perfect field for the spread of Communism which it afforded. There is not only an immense disparity in wealth evidence in every part of the city; such wealth as there is belongs to the comparatively few, and the great masses seem literally on the ragged edge of subsistence. I understand that economic dislocations have not made the lot of the poorest people substantially harder; on the contrary their living standards have risen by comparison with pre-war standards. Nevertheless their misery is all too evident. On the other hand, too many of the wealthy people have made their money by means which are, to say the least, devious, and I am afraid spend it in ways which are, to say the least, heartless. Too often they seem to lack the virtues which might justify their privileges.

On the other hand, the intellectual leaders, if I understand correctly, are being severely squeezed by the progressive inflation. Naturally this factor, plus the corruption and reaction they see around them, has made them at least receptive to Communist propaganda if not actively sympathetic with it. This appears to be reflected in the university students who, as Ambassador Stuart put it, are 90% anti-Communist but also 90% anti-Government. Unhappily, so far as I yet have been able to see, the intellectuals have provided no outstanding liberal leaders, and the same is true of the really decent business men, who do not like the Government but who are not prepared to do anything effective about it (Lewis Clark ⁴⁹ quoted to me a Tientsin business man who said that they practically vomited every time they thought of the National Government).

The National Government appears to be so steeped in reaction and corruption, so split in factions, and so generally inefficient, despite

⁴⁸ *Ante*, p. 242.

⁴⁹ Minister-Counselor of Embassy in China.

outstanding exceptions, that it cannot assume effective leadership. From our military observers comes a picture of chaotic conditions in the Nationalist Armies, and such a lack of morale among the soldiers that they are no match for Communist zeal and fanaticism. Too often they simply don't fight.

Among civilians I find a complacent fatalism with regard to the spread of Communism in China. They seem to accept the inevitability of Communist success and to be indifferent to its implications; they say placidly that the storm will pass, as have all other storms in Chinese history. It seems to make no difference if they belong to that group of Chinese which would certainly be the target of Communist witch hunting.

On the other hand, I find it difficult to agree with those observers who view the Communists as coming with gilded halos and wings to save and modernize China. I find the Communists mouthing today the same promises which they mouthed three years ago in Yugoslavia, and which they have there honored only in the breach since. It seems to me probable that if the Communists do succeed in winning all of China they will install in China a tyranny as subservient to Russia and a terror as brutal as Tito's. Perhaps the Communists, even if they seem to win, will not succeed in taking over and dominating China completely, but their skill in other countries in knocking over one after another of the groups which might serve as the nuclei of successful opposition, while lulling the next victims with honeyed words, does not leave me very sanguine as to the outcome in this country. Communism would be a terrible alternative even to the rottenness of the present regime, quite apart from its implications in the world picture.

The major question in our relations with this country is, I assume, whether we should furnish aid, and if so in what manner and under what conditions. I take it as probable that if we do not furnish aid the regime will collapse and Communism, in one form or another, will come to dominate all of China. Experienced observers in this country seem to be generally agreed that both political and economic collapse could not be long delayed if aid were not given, and that the situation is deteriorating at an accelerating pace. We have tragically little time to act if we are to act, and we must realize that every day's delay will make our task the more difficult in a material sense, if we eventually decide that we must rescue the Nanking regime.

Yet I do not think that we can afford to overlook the formidable objections to granting any aid. As I see it, if we embark on this course, in our further decisions we are damned if we do and damned if we don't. If we furnish a moderate amount of aid (and that seems to be

the present line of thinking), it is hardly likely to prove effective, and in that event it would simply furnish the Communists the excuse, which they don't need but which they will find convenient, to act as disagreeably as possible with regard to our citizens and their property. On the other hand, as you wisely suggested to me before I left Washington, we do not wish to commit ourselves lightheartedly to all-out aid to China. We do not wish to get our prestige irrevocably involved unless we are quite certain that it will be effective, that it will be supported by the American people, and that it will not merely be used by the Chinese to saddle us with an impossible burden. If we really go into this situation as we have in Greece we cannot afford to fail. However, nine-tenths at least of the burden must be shouldered by the Chinese if it is to be successfully carried, and I see discouragingly little evidence that the Chinese at the present time are prepared to shoulder any such burden.

There is a further dilemma in that aid given without strict controls would not be acceptable to the American people, for the very simple reason they know that it would be frittered away in inefficiency and graft. On the other hand, I question whether it would be possible, given the temper of the Chinese Government cliques and of the people, to impose the controls which would assure that any aid given would be effectively utilized. Communist propaganda has been extraordinarily successful in stirring up Chinese nationalistic sensibilities against the United States and the other western powers. In the light of Russia's record this is amazing to me, but it is the fact. Should we demand strict controls, Communist propagandists would have a field day. Moreover, the many elements in the Government—the CC Clique, the grafters, etc.—who would be personally prejudiced by the imposition of strict controls have already made it quite clear that they would fight such controls; in their press organs they have already invoked Chinese sovereignty against controls.

Recognizing that I do not have the experience on which to base a sound judgment, I nevertheless think we must consider carefully whether we can devise any formula which on the one hand would achieve the necessary degree of control over any aid we might give, and on the other secure adequate cooperation from the Chinese authorities. Paradoxically enough, I think it arguable that openly partisan aid to the Nanking Government might prejudice rather than help its chances of survival.

As I see it, two prerequisites should be satisfied before we grant any aid: (1) We should await the establishment of a government which has the confidence of the Chinese people; (2) that government should make the fundamental issue involved quite clear to the Chinese

people—that they are fighting for their peace and freedom against the grave menace of Soviet imperialism. I recognize that it is unlikely that these two conditions can be met and met in time. That may well mean Communist domination of all China. But quite apart from the possibility that the present regime would survive, there is the further possibility, which Chinese history suggests, that we might have a better chance of accomplishing our purposes by building on some healthy anti-Communist growth after the collapse of the Nanking regime than by shoring up the termite-ridden timbers of that regime. In the event the Nanking regime disappears, we should probably not anticipate a split in Communist ranks or a successful uprising against Communist excesses, but I see little reason for optimism in any case, whatever course we follow.

I recognize, moreover, that if the two above-mentioned conditions were met and we were under those circumstances to grant the massive aid which alone would be effective, we would run a serious risk of precipitating World War III. I fear, however, that we cannot successfully bring Soviet aggression to a halt without running some risks, and that we might as well face them in China as anywhere else. I do not believe that the Soviets want to fight, and I believe that if they do they will not lack for excuses. The risk, then, of precipitating a war should be confined to the danger of starting a conflict which is wanted by neither side.

I must add that the present situation regarding aid fills me with misgivings. This town, for example, is swarming with our military and naval activities which are a shining mark for Communist propaganda. The same seems true all over the country—the AAG in Nanking, the Navy operations in Tsingtao, where some 2500 Marines are still on Chinese territory, and our activities in Taiwan, for example, which are evoking misgivings in the Chinese press. I should like to urge their restriction in this district were the situation not so serious that I would be gambling with the lives of American civilians in making any such recommendation.

Perhaps there is in all this an issue even more fundamental than the granting of aid to China. Our great issue in the battle with Communism for the minds of men, as I see it, is our upholding of freedom and democracy (we may believe that our system brings to the great masses more material wellbeing than Communism can, but it is difficult conclusively to prove it, let alone sell it to other peoples). How then can we back the Nanking regime, which obviously upholds neither? It is one thing to uphold the peoples of the world against the imposition of an aggressive tyranny, but it is a very different thing to uphold every rotten, reactionary regime against its own people merely because it happens to be anti-Communist.

As I see it, so far as the public record is concerned, we can scarcely afford to take a holier-than-thou attitude vis-à-vis the Russians. Whereas we have every reason to suspect, but so far as I know we have never been able to prove, that the Soviets are furnishing material military aid to the Communists, our AAG is public evidence of our military support of Nanking, and our activities in Tsingtao are obviously intended as an advance base to offset Port Arthur. One is led to wonder (considering particularly that China borders the Soviet Union but not the United States) whether we do not share in some degree the responsibility for exacerbating the world crisis by giving Russians some valid grounds in this area for their supersensitive suspicions.

Taking all of the above considerations into account, I do not think that we can afford, in honor and decency, to abandon the Nanking regime to its fate at this point. If we feel that a Communist China would jeopardize our vital interests, then it would be advisable to give all-out aid upon such conditions as will ensure its effectiveness, regardless of the yelps of those whose toes are trodden on—and make it very clear that a refusal to meet our conditions means our complete and immediate withdrawal. But if, as I suspect, we are going to spend most of the next year in putting our hand to the plow and then taking several looks back, I suggest that the public emphasis in any aid might be on its peaceful character, and that we might be a darn sight less ostentatious locally about what we're doing. I believe we should examine the need of keeping Marines at Tsingtao, for example, and for having such a swarm of United States uniforms and military vehicles clogging the landscape. Can't we do something like reviving the Flying Tigers,⁵⁰ for example? I recognize that the situation calls for more than palliatives, yet as I see it the situation is too precarious and our freedom of action too circumscribed by past actions and domestic limitations to insist at this time upon all of the conditions which, taken together, would give an aid program good prospects of success. But surely the Chinese Government should at least clarify the issue to the Chinese people if we are to grant aid; there is no use in our pouring money into China if the Government accepts and even mildly foments for its own tortuous ends agitation against the United States and Great Britain.

Probably the greater part of my thinking is brash and foolish, but if it contains any constructive thoughts for you I shall feel that this letter has been worth while.

With all good wishes,

Very sincerely yours,

JACK

⁵⁰ For correspondence on this subject, see pp. 289 ff.

893.00/12-2247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 9, 1948—1 p. m.

207. You are authorized issue your proposed message to people of China (Embtels 2435 Dec 22 ⁵¹ and 236 Feb 6 ⁵²) with the following revisions:

1. First sentence: insert "personal" before message.
2. Change first sentence body of message to read: "From President Truman's statement to Congress you know something of the proposed efforts of the United States to assist the people of China."
3. Para 2, second sentence: insert "earnestly" between Americans and desire.
4. Para 2: delete last three sentences beginning "we have no".
5. Para 4, first sentence: delete "their uncompromising ideology and".
6. Para 4, second sentence: insert "groups" after these.
7. Para 4, final sentence: insert "far" after interests.
8. Para 8: revise to read: "We Americans, under the leadership of Mr. Marshall, did our utmost to prevent the development of the situation which now exists and all the suffering it entails for the Chinese people. Nevertheless, with the traditional friendship between the American and Chinese peoples, and given our belief that the economic well-being of the Chinese people will redound to the benefit of the world, we are proposing, through a program of economic assistance to China, to provide a further opportunity to the Chinese Government and people to take the initial steps toward laying a solid foundation for economic recovery and stability in China."
9. Para 9, first sentence: revise to read: "The real task, the responsibility, however, rests with the Chinese people themselves."
10. Para 9, second sentence: delete "alone" after can.
11. Para 10: revise to read: "The meanings of freedom and democracy have been confused by the wholly different interpretations being put upon these terms today. There should be no misunderstanding of these issues. Under a totalitarian system there can be no intellectual freedom—those who attempt to think for themselves either succumb to regimentation or are promptly liquidated. Democracy is government not only for the people but also by the people. In this truly democratic sense the people must, however, continuously bring the weight of enlightened public opinion to bear upon the conduct of government to prevent misuse of power by those in office. This requires, therefore, freedom of debate and publication and free access

⁵¹ *Foreign Relations*, 1947, vol. VII, p. 1234.

⁵² Not printed; it sought a reply to telegram No. 2435 (893.00/2-648).

to news objectively reported. In a totalitarian system these freedoms cannot exist. Instead, news becomes propaganda scientifically developed. It depends for its effects upon unrestrained vituperation and incessant repetition without regard for the truth."

12. Final para: revise to read: "China today is faced with insidious dangers which will require the united effort of all public-spirited citizens to overcome. This calls for clear-sighted vision, a high degree of courage and grim determination. It is hoped that the freedom-loving patriots of China, together with all elements of the population, will join in a constructive evolutionary process that will bring unity and peaceful progress to the entire nation."

Dept will inform you later when China aid bill is to be presented to Congress so that you may issue statement at same time.⁵³

MARSHALL

893.00/2-1648: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 16, 1948—10 a. m.

251. [For] Amb and Clark. It now appears probable China aid proposals will be transmitted to Congress by President Feb 18. Following info re program is not to be communicated to any Chinese until receipt further instructions.

Program calls for authorization \$570 million thru Jun 1949. It is contemplated that \$510 million would be used to finance imports of foodstuffs, cotton, petroleum products, fertilizer, tobacco, pharmaceuticals, coal, metals and repair and replacement parts for existing industry, and \$60 million would be available to purchase capital goods for key reconstruction projects.

Proposed legislation states as its purpose provision of immediate aid to China to relieve human suffering, to assist in retarding economic deterioration, and to afford the people of China an opportunity to initiate measures of self-help necessary to rebuild the bases for more stable economic conditions. President would be authorized to provide aid on either a grant or credit basis, but it is believed situation requires bulk of funds be granted.

Draft bill calls for an agreement between China and the US containing undertakings by China along lines somewhat similar to those followed in USFRP⁵⁴ and European interim aid agreements and those considered for ERP. It is proposed that program would be

⁵³ For text of Ambassador Stuart's statement issued on February 20, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 985.

⁵⁴ United States Foreign Relief Program.

administered initially by Dept thru USFRP Mission, but that control may be transferred to such general foreign economic aid administration as Congress creates.

Requested legislation would permit use of funds for approved goods delivered in China after date of enactment. Thus program may have some retroactive effect. Procedures required for such operation being discussed Chinese Technical Mission but assurance cannot be given that any Chinese orders made prior to passage Bill will be paid for with aid funds. Draft bill authorizes advance of \$150 million by RFC⁵⁵ pending appropriation funds.

For your info, if after you have been authorized to communicate above to him Gimo inquires whether program provides funds for currency stabilization suggest you comment that we do not believe present conditions in China make it possible to use US aid effectively in currency stabilization; however that goods provided under program and Chinese currency proceeds of such imports should help to retard rate of price increase.⁵⁶

MARSHALL

893.50 Recovery/2-1748: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 17, 1948—7 p. m.

270. Following is guidance for public presentation China aid program:

1. *Themes for major emphasis.*

A. Proposed program is one of economic assistance.

B. Imports to be provided, as listed in President's message,⁵⁷ are essential to China's civilian economy, industry and employment.

C. Purpose of program is "to provide immediate aid to China to relieve human suffering, to assist in retarding economic deterioration, and to afford the people of China an opportunity to initiate measures of self-help necessary to re-build the bases for more stable economic conditions." (from draft legislation).

D. Proposed program has specific, limited objectives (see C above); it is not a US attempt to solve China's economic problems. The limitations arise in part from conditions in China (use material in President's message which describes factors bearing on determination of character and dimensions of program).

⁵⁵ Reconstruction Finance Corporation.

⁵⁶ The Department, in telegram No. 263, February 17, 5 p. m., instructed the Embassy to communicate the substance of this message to President Chiang Kai-shek (840.50 Recovery/2-1748).

⁵⁷ For text of President Truman's statement of February 18, see Department of State *Bulletin*, February 29, 1948, p. 268, or *United States Relations With China*, p. 981.

E. Proposed program will represent another instalment of aid US has been extending China right along, especially since 1942. Present program is thus not a sudden decision to extend aid after long period of no assistance.

F. Program is still a proposal to Congress, not an accomplished fact.

2. *Cautions.*

A. Avoid implying that Chinese measures of self-help are *quid pro quo* for US assistance.

B. Avoid enlarging on expected results. Remember that proposed program is not complete or long-range economic recovery program, is not expected to stabilize currency, end inflation or provide for large scale reconstruction.

C. Avoid any implication that US is or should be assuming responsibility for or underwriting China's economic recovery, or Chinese Govts military effort.

3. *Comment.*

A. Give a fair cross-section of responsible US press and radio comment and editorial opinion.

B. Criticism and praise of proposed program by responsible persons whose positions are such that their opinions make news must be carried.

C. Carry for the record responsible criticism of program based on fact that it does not provide direct military assistance for Chinese Govt along with comment which stresses magnitude and probable consequences of military commitment US would be making if it undertook to underwrite Chinese Govt's military efforts. Sent Nanking as 270 repeated Shanghai as 300.

MARSHALL

893.50 Recovery/2-1748

Memorandum of Conversation, by the Chief of the Division of Investment and Economic Development (Havlik)

[WASHINGTON,] February 17, 1948.

Participants: Mr. Tsuyee Pei, Chinese Technical Mission
 Mr. Havlik, ED
 Mr. Walker, ED
 Mr. Ringwalt, CA
 Mr. Doherty, FN ⁵⁸

Mr. Pei came to my office on invitation pursuant to instructions from the Secretary to make known to him the contents of the program for

⁵⁸ Edward W. Doherty, Assistant Chief of the Division of Financial Affairs.

aid to China. Mr. Ringwalt and I told Mr. Pei that we wished to lay before him the contents of the Chinese Aid Program, but since a message was to be sent by the President to the Congress on the 18th recommending a program of aid for China, the information was now being given to him in the strictest confidence and was not to be disclosed to any but the highest officers of the Chinese Government. Mr. Pei stated that he would forward the information received to his government to the attention of the Generalissimo, the Prime Minister, and perhaps one or two other persons of similar importance.

I stated that the President would send forward a draft of the legislation together with a message discussing various aspects of it. The program would be submitted in detail a little later and we would then discuss it further with Mr. Pei. I emphasized that this program had taken into account the information which the Chinese Technical Mission had made available as well as the information which Dr. Kan Lee had provided in the last few months. I stated that the program had been carefully considered in the Executive Branch of the government, and that it represented all that we felt that we could now appropriately recommend to the Congress.

I then outlined the program, indicating that it was divided into two major parts, the one recommending \$60 million for urgent reconstruction of projects, the other \$510 million for currently needed commodities. With respect to the reconstruction part I pointed out that the draft legislation does not list specific projects; while it would be necessary to refer to various possible projects in the discussions before Congress, the full responsibility for selecting projects would rest with the administrator of the program. Mr. Pei inquired as to what projects might be cited as being worthy of consideration and I replied projects such as the Canton Hankow Railway line, Shanghai Power, some coal projects, fertilizer, sugar refineries, etc. I stated that it was recognized that the sum recommended would not be sufficient to carry on a full program of reconstruction in China, it was our objective to undertake certain urgently needed projects as an indication to the Chinese people of our genuine interest in reconstruction. However, this did not commit us in any way to any further reconstruction programs and, of course, the projects themselves would depend upon the availability of material and equipment required.

I read the list of commodities included in the act and pointed out that this list could be expanded or contracted. I did not indicate the amounts which we had in mind for each commodity.

I indicated that the legislation contained requirements to be incorporated in a bilateral agreement with the Chinese Government governing the terms under which aid was to be provided. I cited examples

and pointed out that they were largely standard requirements appearing in Interim Aid and ERP legislation. I emphasized that the U. S. Government was deeply concerned with the steps that the Chinese Government would take in the matter of self help as well as the steps it would take to clarify and correct questions concerning the commercial practices and policies. I pointed out that while satisfactory action on the latter was not made a pre-condition of aid, it would, nevertheless, be regarded by this government as an essential concomitant of the aid program and the subject would be one to which we would pay continuing attention. Mr. Pei indicated that he understood the meaning of my remarks on this point.

Pursuant to questions raised by Mr. Pei, I indicated that the program did not contain anything for munitions as such because it was felt that the Chinese Government would have available to it certain reserves of gold and holdings of foreign exchange, which, together with the accruals from exports, could be used to cover the purchase of essential commodities including munitions. Furthermore, to the extent that Chinese exports were increased over the moderate figure that was stated in the program, the Chinese would have additional foreign exchange at their disposal. Mr. Pei was particularly concerned with the absence of a specific provision for currency stabilization and he asked whether his recommendations on this point⁵⁹ had been considered in drafting the program. I assured him that his presentation had been considered and that the question of a currency stabilization fund had been considered at the highest financial policy levels in this government. It was our firm view that we could not provide any funds specifically for currency stabilization or currency reform at this time in view of the conditions now prevailing in China; I called attention to the fact that no recommendation had been made for funds for currency stabilization in the European Recovery Program even though the report of the CEEC countries indicated the desirability from their point of view for some such provision. I indicated to Mr. Pei, and he appeared to consider it a matter of considerable importance, that one of the conditions laid down in the legislation and to be covered by the bilateral agreement was that the Chinese Government should initiate, so far as practicable, financial monetary and budgetary measures with a view to creating more stable currency conditions. This, I pointed out, was an indication of our recognition of the importance of trying to achieve some stability in China. I added further that the program itself, by providing substantial quantities of materials, should have some effects in this direction.

⁵⁹ Contained in one of 10 reports submitted informally to the Department by Mr. Pei; see footnote 44, p. 464.

Mr. Pei inquired whether funds appropriated by Congress could be used in the form of a fund to be held by the Chinese Government in China in order to create conditions of confidence on the part of her people. I stated that the legislation was flexible but that, while it could be interpreted to permit some such provision, we did not contemplate this method of handling the funds. In our view the psychological impact of the program would be just as great if the funds were on this side of the water rather than the other. In response to further questions by Mr. Pei, I indicated that the legislation was flexible enough to permit channeling programmed goods through private channels but that we could give no assurances as to procedure since this would depend upon the administrator who would take into account all the conditions under which he had to discharge his responsibilities for efficient use of the funds. He would doubtless keep in mind the general desire of this government to establish and maintain private trade channels.

In the course of further conversation it was indicated that the method of determining financial terms would be the same as that of the ERP legislation. Mr. Pei asked whether the legislation foreclosed using the Export-Import Bank as a source of credits in addition to the program. I stated that the legislation did not by its terms do so but that there was no assurance that the views of the Export-Import Bank with respect to credits would be different from those it has entertained so far.

Mr. Pei expressed appreciation of the efforts of the Department in developing the program and of the assistance proposed; he indicated that expressions of gratitude in China might be mixed with some criticism owing mainly to the absence of currency stabilization provisions. In response to a further question I stated that the Department had not recommended an interim appropriation under Public Law 389 as previously suggested by Mr. Pei, because such action might delay the Chinese program, particularly in view of the present situation on legislation on foreign aid.

[For statement by the Secretary of State, February 20, presenting the China program to the House Committee on Foreign Affairs, see *United States Relations With China*, page 983, or *Department of State Bulletin*, February 29, 1948, page 270.]

893.50 Recovery/2-2048

*Memorandum Prepared in the Department of State*⁶⁰

[WASHINGTON,] February 20, 1948.

ECONOMIC ASSISTANCE PROGRAM FOR CHINA

I. *Summary*

It is proposed that economic assistance to China be authorized and funds be appropriated by the Congress in the amount of \$570 million for the period ending June 30, 1949. Of this amount, \$510 million is necessary to supply essential imports of cereals, cotton, petroleum and petroleum products, fertilizer, tobacco, metals, pharmaceuticals, coal and replacement articles for existing capital equipment, and \$60 million is required for highest priority reconstruction projects. The object is to help China to arrest the rate of deterioration in her economy. While United States assistance cannot, by itself, bring about economic recovery for China, it can provide a respite during which the Chinese Government itself can initiate the measures of self-help necessary to rebuild the basis for her own economic recovery.

II. *Background*

China's economy has deteriorated steadily since the defeat of Japan. This deterioration has been due to the devastation which civil warfare has added to the disorganization and destruction brought about by the war against Japan, and to the difficulties faced by China, in the circumstances, in mobilizing effectively its available resources. It has taken place despite large amounts of foreign aid extended or available to China since V-J Day. The United States alone has extended aid to China amounting to somewhat over \$1.4 billion since V-J Day. (See Appendix A⁶¹ for a detailed statement on aid extended by the United States to China since V-J Day.) In addition, the Chinese Government has expended more than \$700 million of its own foreign exchange holdings.

The civil warfare in China has seriously dislocated economic activity in two major respects. First, its physical impact has been felt through the destruction and dislocation of transportation and industrial facilities, and in the isolation of raw material, fuel, and food sources from centers of consumption and ports of export. Second, the monetary and financial impact of civil war is felt throughout the entire economy in the disruptive consequences of inflation resulting

⁶⁰ Submitted by the Department to the House Committee on Foreign Affairs on February 20 and incorporated in the Committee print entitled "Text of Proposed China Aid Bill and Background Information on Economic Assistance Program for China".

⁶¹ Not printed.

from the issuance of paper currency in order to finance mounting government deficits caused mainly by military expenditures. Inflation impedes the production and movement of goods for domestic consumption and export, and stimulates speculation and hoarding. It thus intensifies existing scarcities, and requires ever larger government appropriation.

Note issues and prices have continued to increase at tremendous rates. Note issue increased more than eight times during 1947; the price of rice in Shanghai increased more than fifteen times during the same period. The official exchange value of the yuan was CN⁶² \$3350 to the US\$1 as of January 1, 1947 and has been raised to a current rate of CN\$140,000 to the US\$1. Black market quotations are currently around CN\$200,000 to the US\$1.

Government expenditures for the year 1947 were originally estimated at CN\$9.4 trillion, against estimated revenue of CN\$7.4 trillion. By May 7, 1947 a new budget of CN\$18 trillion for 1947 was approved, and later, as prices further increased, new revisions brought total government expenditures for 1947 to about CN\$40 trillion. Of this amount, not less than 70 percent has been required for military purposes. Revenue from taxes and government-operated enterprises has covered less than one-third of the total government expenditures.

The rate of increase in note issue in 1946 was about 10 percent per month; in the first half of 1947 it rose to 15 percent per month; currently it is 25 percent per month. Prices have moved unevenly with periods of very sharp upward fluctuation alternating with periods of quiescence. Intervals between the periods of sharp increases are becoming shorter, and the increases tend to become steeper.

The continued low level of Chinese exports and official receipts from overseas remittances caused by civil war and inflation, has made it necessary for the Chinese Government to draw down its official Chinese foreign exchange holdings to finance the major portion of Chinese imports. Chinese Government holdings of gold and dollar exchange have fallen from about US\$900 million on December 31, 1945 to about US\$234 million as of January 1, 1948, of which \$96.5 million represents gold (\$86 million being held in China) and \$137.8 million consists of official dollar balances in the United States. In addition, holdings of sterling area currencies as of January 1, 1948 are estimated at approximately \$40 million; and official holdings of silver are valued at around \$30 million, almost all of which is held in China. (See Appendix B for data on official gold and exchange holdings of the Chinese Government.⁶³)

Private Chinese holdings of gold, foreign exchange, and long-term

⁶² Chinese national currency.

⁶³ Not printed.

assets in all foreign currencies are not known but may be estimated to be at least US\$500 million. Such holdings have increased since the end of 1945, through private accumulation of gold in China, through flight of capital via Hong Kong, and other means. The ability of the Chinese Government to mobilize these privately-held assets is, however, decreasing with continued deterioration in the financial and economic situation.

As a result of the continued drains on her foreign exchange holdings, China soon will be unable to meet external costs for procurement of essential imports needed for the continuation of her basic civilian economy. The official proceeds of exports and remittances would be grossly inadequate to meet minimum requirements, and such proceeds could be expected to decline. If imports were contracted much further, industrial activity would diminish rapidly, minimum consumption needs in Shanghai and other vital areas would not be met, Government revenues would fall off sharply, and prices would soar in a situation of panic psychology and uncontrolled inflation. Accordingly there is immediate necessity for an economic assistance program for China which will afford the Chinese Government an opportunity to take steps which only that Government itself can take to arrest the trend of economic deterioration, and to begin effective steps toward more stable economic conditions.

III. *Financing Essential Commodity Imports*

The U. S. assistance program is designed to finance selected essential imports until June 30, 1949 in the amount of \$510 million. On the basis of present information concerning China's needs, and data from U. S. Government agencies concerning availabilities, a probable list of such imports would consist of the following, with values expressed on a c. i. f. basis and calculated at prices as of January 1, 1948.

1. Cereals (wheat and rice)	\$130 million
2. Cotton	150 "
3. Petroleum and Petroleum products	110 "
4. Fertilizer	30 "
5. Tobacco	28 "
6. Metals	24 "
7. Pharmaceuticals	5 "
8. Coal	3 "
9. Replacement articles for existing capital equipment	30 "
	<hr/>
	\$510 million

Detailed justification of the essentiality, minimum quantities required, and supply availabilities of the above imports is presented in Appendix C.⁶⁴ Any projection of requirements over the period until

⁶⁴ Not printed.

June 30, 1949, is necessarily subject to a margin of error, and provision must be made in the administration of these programs for flexibility both as to the items to be included, and the respective amounts. The commodity imports indicated above are believed to represent minimum quantities and are within the limits of current Chinese import quotas, as well as supply availabilities, including cereals and fertilizers subject to international allocation.

IV. *China's Other Payments and Receipts*

The proposed assistance program would cover the major portion of China's necessary commodity imports. In addition to these imports, China would need other essential commodities from abroad, such as chemicals, dyes, timber, paper and woodpulp, to help maintain her domestic economy. For the period covered by the program, payments for such imports are roughly estimated at \$55 millions. The probable amounts of such essential imports are listed in Appendix D.⁶⁵

In addition the Chinese Government has to make certain governmental expenses and payments abroad, which will amount to at least \$75 millions before June 30, 1949. These items are listed and explained in Appendix E.⁶⁵

The Chinese Government will have available certain foreign exchange receipts, principally from the proceeds of exports and emigrant remittances, the amount of which can only be estimated very roughly because of the disturbed conditions of China's trade and the uncertainty of production conditions and the relationship of prices to foreign exchange rates. It is estimated that the total official receipts would range between \$125 million and \$185 million during the period April 1, 1948 to June 30, 1949 (as indicated in Appendix F ⁶⁵). Such receipts could be used by the Chinese Government to cover China's various foreign obligations, other essential civilian imports, as well as purchases abroad of military supplies and equipment. To the extent that conditions improved and China's foreign exchange receipts were increased, China would be able to apply the resulting exchange to an improvement in monetary reserves, or to such essential purchases as it might require.

V. *Reconstruction Projects*

China urgently needs to take steps in areas sheltered from military operations to restore essential transportation facilities, sources of fuel and power, and export industries. Projects such as those for the expansion of electric power capacity, particularly in the Shanghai area, for the rehabilitation of railroad transportation in South China,

⁶⁵ Not printed.

for the development of coal mining in Central and South China, and for other projects mentioned in Appendix G,⁶⁶ all are necessary to enhance China's productive capacity and improve her foreign exchange position.

Loans for certain of these and other projects totaling nearly \$300 million have been requested by the Chinese Government from the Export-Import Bank. It is unlikely that these applications will be approved by the Bank, under present conditions in China, although it is possible that in the future some projects might qualify for Export-Import Bank loans. In view of the urgent need for reconstructing essential facilities the economic assistance program for China includes the sum of \$60 million for assistance in initiating key reconstruction projects prior to June 30, 1949. Projects initiated are to be capable of completion in their entirety within the \$60 million of total cost. A program of this magnitude would not unduly accelerate inflationary pressures, and could be effective in increasing exports and in improving production and distribution of essential commodities.

Decision as to the individual projects to be undertaken will be the responsibility of the Administrator of the program.

VI. *Implementation*

Pending establishment of the Economic Cooperation Administration or other agency set up in connection with the European Recovery Program, it is proposed that administration of economic assistance for China be carried forward under the U. S. Foreign Relief Administrator.⁶⁷ Upon establishment of the Economic Cooperation Administration, it should be possible for the China program to be transferred to the E. C. A. Administrator, with provision for suitable staff. It is contemplated that provision will be made for appointment of a U. S. representative to administer the program in China. Such a representative should have a staff of economic (including commodity) and financial experts to maintain in the closest liaison and representation with the appropriate ministries and agencies of the Chinese Government, with American Embassy and Consular representatives, and with the business community. This work should be closely coordinated with that of any foreign advisory and specialist personnel engaged by China to assist in implementing undertakings which China will be expected to give in connection with the program.

Implementation of the Economic Assistance Program for China by the Economic Cooperation Administration is recommended mainly in the interests of economy and efficiency in the required operations.

⁶⁶ Not printed.

⁶⁷ Presumably, Assistant Secretary of State Willard L. Thorp who was designated Coordinator for the European Recovery Program on January 19.

Differences in objectives and procedures which are indicated in the Chinese situation as compared with Europe, can be reflected in the separate legislative enactment for the two areas, and in the bilateral agreements reached.

In implementing the Chinese program the Administrator should have powers with respect to procurement, processing, storage and shipment of commodities in order that implementation of the program could proceed through established commercial channels so far as practicable and consistent with economy and efficiency of operation.

VII. *Form of Aid*

While the commodity import program of \$510 million as described above lists specific types and quantities of commodities to be provided to China, it is essential that latitude be permitted the Administrator to change the list of commodities and the quantities indicated. He will thus be able to take full account of changing requirements and availabilities while maintaining adequate control over the effective expenditure of the funds. It is proposed that assistance in the program might be either in the form of grants or loans or both. Determination as to whether assistance should be through grants or upon terms of payment would be the responsibility of the President, with the advice of the National Advisory Council, in accordance with the procedures indicated in the draft legislation.

VIII. *Bilateral Agreement*

It is contemplated that there will [be] concluded between the United States and the Chinese Governments a bilateral agreement setting forth the principles and procedures under which the economic assistance program will operate, as was done in connection with the U.S. Foreign Relief Program for China,⁶⁸ and as provided for in the Interim Aid Program and the proposed Economic Cooperation Bill. As indicated in the draft legislation for the China Aid Program, China would be expected to signify her intention to adopt the financial and economic policies and improved procedures of budgetary administration which are needed if U. S. aid is to be most effective. Together with other undertakings relating to the application of the aid program, there would be provision for the deposit of yuan currency in commensurate amount, and for the utilization of such currency in accord with terms and conditions agreed to between the U. S. and China.

The U. S. would retain power to terminate the provision of assistance, as stated in the draft legislation, whenever it was found that

⁶⁸ This agreement was signed at Nanking on October 27, 1947; Department of State Treaties and Other International Acts Series No. 1674, or 61 Stat. (pt. 4) 3374.

China is not adhering to the terms of the bilateral agreement, or whenever it was found that, by reason of changed conditions, the provision of aid was no longer consistent with the national interests of the United States.

In this connection, the Chinese Government has already announced its intention to undertake a series of financial and economic reforms measures as part of a program of self-help. The announcement made by General Chang-Chun, President of the Executive Yuan, is reproduced as Appendix H.⁶⁹

893.50 Recovery/4-348 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 3, 1948.

483. China aid act,⁷⁰ as revised in conference, passed by both houses Congress Apr 2 and expected to be signed by President Apr 3.

Pertinent provisions as follows: Aid to be provided under applicable provisions Economic Cooperation Act of 1948⁷¹ which are consistent with purposes China aid act. Act authorizes to be appropriated to President to carry out its purposes \$338 million for one year following date enactment. Act also authorizes to be appropriated to President sum not to exceed \$125 million for additional aid to China through grants,⁷² on such terms as President may determine and without regard to provisions of Economic Cooperation Act of 1948, to be available for one year following date enactment. Bilateral agreement⁷³ to be concluded containing undertakings which SecState, after consultation with Administrator for Economic Cooperation,⁷⁴ may deem necessary to carry out purposes act and improve commercial relations with China. RFC authorized make advances not to exceed 50 million dollars prior to appropriation above sums. SecState also authorized, after consultation with Administrator, conclude agreement with Chinese Govt for Joint Commission on Rural Reconstruction in China,⁷⁵ composed of two Americans and three Chinese. Commission subject to direction and control of Administrator shall formulate and carry out program rural reconstruction. Not more than 10 percent of the \$338 million is to be made available for this purpose, such amount to be in US dollars, Chinese currency proceeds from sales of aid program imports or both.

LOVETT

⁶⁹ January 28, p. 462.

⁷⁰ Title IV of Foreign Assistance Act of 1948, approved April 3, 1948; 62 Stat. 158.

⁷¹ Title I of Foreign Assistance Act of 1948; 62 Stat. 137.

⁷² For correspondence on utilization of these grants, see pp. 73 ff., *passim*.

⁷³ For correspondence on negotiation of this agreement, see pp. 506 ff.

⁷⁴ Paul G. Hoffman was appointed to this position on April 6.

⁷⁵ For correspondence on negotiation of this agreement, see pp. 601 ff.

893.50 Recovery/4-648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 6, 1948—noon.

[Received April 6—5:30 a. m.]

614. [Emb has been devoting thought to future operations of China Aid Program with view to possible] ⁷⁶ assistance to Dept on decisions in Washington.

With respect to U. S. Aid Mission in China prime and overriding consideration is selection by ECA ⁷⁷ administrator of properly qualified China Mission head. Emb assumes Gilpatric ⁷⁸ not available for consideration by reason his firm personal plans; otherwise his experience and CRM record would correctly entitle him to foremost Washington consideration for post. There does not appear to Embassy to be now available in China another American carrying sufficient prestige as top flight executive and administrator. In such case, securing these qualifications appears to Embassy more important than longtime China experience or direct past participation in relief operation. Embassy accordingly recommends Dept urge ECA administrator to seek man of proven stature in US business or Government circles, possession some Far Eastern experience desirable but in Embassy's judgment not essential.

On operating level Embassy believes CRM will bequeath to aid mission not only valuable experience and records but going concern in form of headquarters, logically located branches, certain equipment and nucleus of intermediate and supporting staff. In view, however, of tremendous importance aid program to our total relations with China, Embassy strongly recommends most careful security screening all personnel. Embassy also believes powerful burden of proof should rest on employment of any non-Americans, except Chinese at clerical level if Americans unavailable.

Embassy is unaware of any discussions which may have been held in Washington with Chinese representatives concerning organization to be established by Chinese Government for handling its part under aid program. Discussions here with high Chinese officials indicate no concrete plan yet developed. In fact, little consideration of problem evident at Cabinet level. (See, however, Mukden's telegram of March 31, 4 p. m. to Dept,⁷⁹ rptd Nanking 203, contents of which are as yet

⁷⁶ Bracketed insertions made on basis of Embassy file copy of telegram.

⁷⁷ Economic Cooperation Administration.

⁷⁸ Donald S. Gilpatric, Attaché at the Consulate General at Shanghai and Director of the China Relief Mission (CRM) which administered post-UNRRA relief in that country.

⁷⁹ Telegram No. 144 reported the Premier had offered the position of national administrator of non-military American aid to Yang Cho-an, Mayor-designate of Harbin (893.50 Recovery/3-3148).

unconfirmed here.) Embassy recommends that, in line with original CRM decision which events have supported, Chinese be encouraged to utilize existing ministries concerned rather than establish new governmental structure exclusively for purpose receiving aid. Nevertheless there would be required a high level Chinese Coordinating Committee at Cabinet level to act as focal point with US administrator. This committee should be capable of enforcing its decisions on ministers. Hence Embassy believes it should be at higher level than present EYCARS⁸⁰ but that it might usefully inherit all or part of EYCARS staff as its secretariat. In Embassy's judgement, most logical chairman would be Premier with an outstanding vice-chairman (for example, Y. T. Miao⁸¹) who could devote full time to operation and speak confidently with Premier's authority.

Apart from machinery, China aid program obviously falls into two major operations, (1) supplies to China and (2) disposition of local currency sale proceeds.

On first, Embassy strongly recommends use of American commercial channels wherever and to whatever extent practicable. Food presumably should be handled on Govt to Govt basis but cotton and petroleum in Embassy's opinion should be channeled through existing commercial organizations. We should clearly insure that supplies made available by US taxpayer do not damage legitimate US commercial interests and on contrary where feasible they should be so handled as to support established US commercial interests. American businessmen in China can be invaluable in advising US aid administrator. Their help should be solicited and placed on organized basis.

Insofar as disposal of CNC⁸² proceeds are concerned, two broad choices apparently are open, requiring major policy decisions in Washington. The first would be in effect to substitute CNC sale proceeds for currency which otherwise would be freshly printed. Such a policy would attack Chinese economic problems at the printing press, leaving all other hopes for benefits to flow from an arresting of currency inflation. The arithmetic of the problem lends some appeal to this approach. On the other hand it could only be surely counted on as a long [*one*] shot remedy. It would not invite or encourage a budget balancing official mentality and any enduring benefit would seem doubtful.

The broad alternative would be to allocate local currency proceeds for meritorious projects and purposes, along lines CRM current operations. Selective benefits directly to Chinese on grand scale are thereby obviously possible. On other hand magnitude of sums involved opens green fields for WPA⁸³ type of operation on scale which

⁸⁰ Executive Yuan Commission for American Relief Supplies.

⁸¹ Chairman of EYCARS.

⁸² Chinese national currency.

⁸³ Works Progress Administration.

would invite chop-licking in every hamlet. The inflationary implications moreover are not to be overlooked.

Between these two extremes some sensible middle course may be possible. Moreover full text of act, as yet unseen here, may foreclose or limit one or other course.

Embassy recommends following:

a. In close collaboration with emitting authority, all of [allow] application substantial proportion CNC proceeds from sales to Chinese Government expenditures thereby reducing need to call on printing press. With this lever and possible provision of technical experts, which Chinese Govt has been asking for American [as] advisers, substantial reforms in budgeting and fiscal procedures might well result.

b. Maintain or increase present high CRM standards for qualification of individual projects to receive CNC grants.

c. Secure Chinese Government agreement to take advantage of inherent easing Governmental revenue problem realistically to adjust upward troop pay and salaries of civil servants. This is admittedly [anti-deflationary but action is necessary to prevent further decay in morale.]

[Embassy would appreciate guidance from Dept as to general directions in which Emb by informal talks might constructively influence Chinese Government thinking on any points discussed in this telegram.]

STUART

893.50 Recovery/3-2548 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 6, 1948—7 p. m.

494. Re Embtel 537 Mar 25 ⁸⁴ pertinent clauses final legislation contained Deptel 495 Apr 6.⁸⁴ While Congressional intent obviously provide aid for Yen program,⁸⁵ language Act does not preclude inclusion other rural undertakings, such as agricultural industries or implementation findings Joint Sino-US Agricultural Mission, under Joint Commission on Rural Reconstruction.

Pursuant Committee's inquiry, Dept's letter Mar 12 [11] ⁸⁴ to Chairman House Foreign Affairs Committee ⁸⁶ indicated most promising means US assistance Yen program would be by use some part local currency account under Aid program for specific projects approved

⁸⁴ Not printed.

⁸⁵ Named after Y. C. James Yen, leader in Chinese Mass Education Movement. The program called for eradication of illiteracy, poverty, disease, and misgovernment in China.

⁸⁶ Charles A. Eaton, of New Jersey.

by two Govts within limits imposed by consideration inflationary effects and alternative needs Chinese Govt.

While language Act permits expenditure US dollars Yen program, Dept believes primary requirements program are in terms Chinese currency. Emb's views requested this point and re desirable scope and procedure undertakings under Joint Commission on Rural Reconstruction.

LOVETT

893.50 Recovery/4-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 7, 1948.

[Received April 7—10:58 p. m.]

625. Prime Minister Chang Chun sent for me this morning and asked me to convey to Mr. Marshall his deep personal appreciation and that of the nation to the United States for the China aid program and at same time he expressed complete willingness of Chinese to assist in implementation in every way possible. He said Generalissimo was telegraphing President direct⁸⁷ his appreciation our action.

STUART

893.50 Recovery/4-2348

*Generalissimo Chiang Kai-shek to the American Ambassador in China (Stuart)*⁸⁸

[Translation]

[NANKING,] April 7, 1948.

EXCELLENCY: Your letter of March 29⁸⁹ has been noted with immeasurable appreciation. It is certainly gratifying that China has won such a righteous and sincere friend.

The basic purpose of China's national revolutionary struggle of the past several decades has been to realize the Three People's Principles. The National Assembly presently convened to carry out constitutional government is in truth the fruit of the ceaseless efforts of the people of the Republic of China. Hereafter, the whole nation will, with a single heart and a single mind, seek to manifest and glorify the democratic spirit. At the same time, I firmly believe that with such a great, unwavering force, it will surely be possible to wipe out completely the Communist bandits, who rebel against the nation, harm the people and

⁸⁷ Message not found in Department files.

⁸⁸ Copy transmitted to the Department by the Ambassador in despatch No. 195, April 23; received May 4.

⁸⁹ Not found in Department files.

obstruct constitutional government, and to complete the great work of democratic unification, so that the Republic of China can carry out to the full its obligation of maintaining world peace.

While it is true that the successful completion of the United States China Aid Act is attributable to the profound understanding of China on the part of United States Government officials and civilians, as well as members of the Senate and House, Your Excellency's painstaking work as an intermediary was the greatest factor contributing to its success. The Chinese Government will certainly not fail to put the United States aid supplies to prompt and satisfactory use. Furthermore, it particularly values the sincere friendship thus manifested by United States Government officials and civilians so that hereafter cooperation between China and the United States will become even more intimate and harmonious and fulfill Your Excellency's generous intention in lending your greatest assistance.

This reply is especially indited to express my gratitude with best regards,

Yours, etc.

CHIANG CHUNG-CHENG
(CHIANG KAI-SHEK)

893.50/4-948

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] April 9, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. Tsu-yi Pei, Head of Chinese Technical Mission
The Acting Secretary, Mr. Lovett
Mr. W. Walton Butterworth, Director for Far Eastern Affairs

The Chinese Ambassador, accompanied by Tsu-yi Pei, called at his request this afternoon. He first expressed thanks on behalf of his Government for the China Aid Act and for the action taken by the Department of State in initiating and carrying the measure through the Legislative Branch of the Government. He also indicated that the Generalissimo had telegraphed directly to the President⁹⁰ his personal thanks.

From there, the Ambassador moved by a series of questions into the matter of how his Government could begin to have their commodity bills paid out of the new legislation and to obtain funds under the \$125 million procedure. He wanted all manner of undecided details and it became necessary to emphasize to him that Mr. Hoff-

⁹⁰ Message not found in Department files.

man had only taken his oath of office at ten o'clock this morning, and that he did not yet have an organization. I did, however, point out that as regards the \$50 million advance, the Department would recommend to the Administrator that it be allocated proportionately as between the \$338 million and \$125 million categories which would amount to say \$36,500,000 and \$13,500,000.

Ambassador Koo then referred to the implementing agreement which would have to be made between the Chinese and United States Governments within three months of the passage of the Act and indicated his Government's desire that it should not contain terms which were not included in the European agreements. Mr. Butterworth referred to the conversation which officials of the Department had recently with Mr. Tsu-yi Pei at which time it was explained that there were decided differences as between China and the European countries and recognition of this would certainly find reflection in the agreement. The Chinese Ambassador also put in a plea for a very brief letter of intention to be operative until the conclusion of the agreement and in answer to this, Mr. Butterworth also referred to the conversation with Mr. Tsu-yi Pei at which he was shown a first draft of the letter; when the draft is further perfected and the Administrator consulted, the Chinese representatives will be further consulted. Ambassador Koo also wished to know whether a separate exchange of letters covering the procedures for the \$125 million would have to be made and I informed him that it would seem that a separate exchange of letters would have to be made and although the President wished to center in the Administrator as many of the foreign aid administrative functions as possible, no decision had yet been reached in this particular case and, therefore, no authoritative answer could yet be given.

[Here follows account of conversation in connection with Japanese matters.]

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/4-1048 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 10, 1948—6 p. m.

527. Since negotiation bilateral agreement will take some time, Dept expects, subject to consultation ECA Administrator, exchange letters with Chinese Govt under which China Aid Program can begin operations immediately.

Exchange letters will be designed to raise fewest possible questions, enabling quick action by Chinese Govt.

For European countries ERP legislation requires commitment by receiving country to conclude agreement incorporating conditions specified in Title I section on bilateral agreement. Also necessary for US to make finding that European countries in fact living up to such conditions. No similar requirement for China exists in Act.

Effect exchanges of letters will be to continue existing PL 84 Foreign Relief Agreement of October 27, 1947 with certain modifications and supplementary understandings. Text proposed US letter follows next cable.^{90a} Request Embassy's immediate comments.

When nature proposed exchange letters discussed informally Chinese Ambassador and Pei, they emphasized importance from Chinese standpoint to have procedure as similar to European procedure as possible. Department explained European pattern not appropriate to China, since conditions so strict that necessary commitment by Chinese Govt and finding by US Govt could not be made. Important Chinese realize that to insist on conditions like Europe is to insist on agreement much more difficult for Chinese to sign. Proposed letter indicates bilateral agreement must be concluded within 3 months after signing of Act (April 3). This should provide adequate time for negotiations and corollary conversations reference Deptel 519 April 8.⁹¹

Would appreciate Embassy's suggestions soonest re content bilateral agreement for consideration advanced drafting here.

Sent Nanking as 527; repeated Shanghai as 634.

LOVETT

893.50 Recovery/4-1048: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 10, 1948—6 p. m.

528. Fol is text proposed letter to be exchanged Chinese Govt ref Deptel 527 Apr 10:

"The China Aid Act of 1948 (Title IV of the Foreign Assistance Act of 1948) became law on April 3, 1948.

Pending the conclusion of an agreement between China and the United States under Section 405 of the Act and until July 3, 1948, the Government of the United States proposes to arrange for the performance of those functions authorized by the Act which may be determined to be essential to the use of funds authorized under Section 404 (a) of the Act. This action by the Government of the United States is contingent upon certain requirements, as hereinafter set forth, being fulfilled.

I should appreciate your notifying me whether your Government

^{90a} *Infra.*

⁹¹ *Post*, p. 506.

adheres to the purposes and policies set forth in Section 402 of the Act in furtherance of which the Act authorizes assistance to be provided, and also whether your Government intends to conclude an agreement with the United States in accordance with Section 405.

Pending the conclusion of such an agreement, my Government proposes that the extension of aid to China hereunder as authorized by Section 404 (a) of the Act be governed by the agreement between our two Governments dated October 27, 1947, subject to the understandings set forth below.

During the period covered by this letter, assistance may be furnished to your Government under the Act with funds authorized under Section 404 (a) thereof prior to a determination by my Government as to whether the assistance will be furnished on terms of payment or by grant. It is possible that my Government may decide to treat some part of the assistance furnished to your Government pursuant to this letter as a loan or to require other terms of payment as may be authorized under the Act with respect thereto. In such event, the terms of payment will be determined in accordance with the Act at a later time.

I suggest that pending the determination of the terms of the future agreement between our two Governments under Section 405 of the Act, deposits in the currency of your country in respect of any assistance furnished hereunder be made in accordance with the agreement between our two Governments dated October 27, 1947 and may be used for administrative expenses of the Government of the United States in the currency of your country, incident to my Government's operations within your country under the Economic Cooperation Act of 1948. The provisions of the future agreement between our two governments concerning any deposits in Chinese currency to be made will apply with respect to all of such assistance for your Government which is determined to have been made by grant during the period covered by this letter.

Commodities, the procurement of which for import into China may be financed with United States funds made available pursuant to this letter, will not necessarily be limited to those specified in the agreement of October 27, 1947. The methods of distribution provided for in paragraph (a) of Article II of the Agreement of October 27, 1947, will be subject to such exceptions and modifications as may hereafter be agreed between our two Governments. The word 'relief', as used in the agreement of October 27, 1947, should not be taken to indicate the character of United States assistance extended pursuant to this letter or to restrict the application of provisions of the agreement of October 27, 1947 in respect of any assistance furnished hereunder.

I trust that your Government will concur in the understandings expressed above.

The Act authorizes my Government to appoint a special mission for economic cooperation to your country. I should appreciate receiving the assurances of your Government that the fullest cooperation will be extended to the representatives of my Government concerned with operations in implementation of the Act.

I am sure your Government understands that the proposals set forth in this letter cannot be viewed as constituting an obligation on

the part of my Government to make assistance available to your country."

Sent to Nanking as 528; repeated to Shanghai as 635.

LOVETT

893.50 Recovery/4-1048: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 10, 1948—6 p. m.

529. Following is summary developments in preparatory work for China Aid Program:

1. Summary program with dollar breakdown notified you in our 518 April 8.⁹² Breakdown by quantities follows by cable.⁹³ This program will be made available to Chinese here as basis of a discussion both here and in China. However program has already been used as basis for appropriations justification.

2. Administrative budget submitted to Budget Bureau by Dept contemplates expenditure \$2,000,000 foreign exchange broken down roughly \$300,000 headquarters and \$1,700,000 overseas, latter being net figure after deduction items that can be financed from local currency. Total positions in administrative budget 46 at headquarters (including people to work on China problems in various functional divisions, China Section of Country Division, as well as office of Special Assistant in Administrator's office), and 125 positions in field including assistants and clerks. Budget estimate and justifications air mailed.

3. Work now proceeding on procurement and financing procedures. Present assumption is that with exception wheat all commodities in program will be procured to extent possible through private channels, either by Chinese Govt or by established importers under Chinese Govt licensing controls.

4. Department recommending that \$50 million RFC advance be split pro rata—i. e., 36.5 for economic aid handled through ECA and 13.5 as first installment of \$125 million special grant.

5. Program and procedural problems discussed several times with Pei and members of his mission.

6. Re rural reconstruction clause see our 494, April 6.

7. Naturally all plans for ECA operations, here and in China, depend on decisions of or consultation with Administrator for Economic

⁹² Not printed.

⁹³ Telegram No. 556, April 14, 6 p. m., not printed.

Cooperation. During period until new Administrator selects key staff, Dept continuing perform certain planning and operating functions, in effect as staff work for new Administrator.

Greatly appreciate detailed suggestions your 614 April 6 and Shanghai's 800 April 9.⁹⁴

Sent Nanking as 529; repeated Shanghai as 636.

LOVETT

893.50 Recovery/4-1248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 12, 1948—6 p. m.

[Received April 12—7:39 a. m.]

653. Embassy concurs text proposed letter contained Deptel 528, April 10 (Deptels 519, April 8,⁹⁵ 527 and 528, April 10) with exception following suggested changes.

Fifth paragraph proposed letter requires assumption by China of an unrestricted commitment which Chinese Govt might understandably feel unable to incur. Suggest last two sentences reference paragraph be revised to read as follows: "It is possible that my Govt may decide to treat some part of the assistance furnished to your Government pursuant to this letter as a loan or to require other terms of payment as may be authorized under the act with respect thereto, it being understood, however, that the agreement of the Chinese Govt shall be secured in advance of the acceptance by it of such part of the assistance to be furnished in the form of a loan or other terms of payment. In the event that some part of the assistance furnished is offered by the US Govt as a loan or on other terms of payment and the Chinese Govt shall have agreed to accept such assistance on such basis, then the terms of payment will be determined in accordance with the relevant provisions of act."

In first paragraph proposed letter reference is made to "Foreign Assistance Act of 1948". At end of first sentence of sixth paragraph reference is made to "Economic Cooperation Act of 1948". Presume latter will be confirmed.

Finally, should not proposed letter contain covering sentence officially transmitting to Chinese Govt copy of the Act?

STUART

⁹⁴ Latter not printed.

⁹⁵ *Post*, p. 506.

893.50 Recovery/4-748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 15, 1948.

568. Urtel 625 Apr 7. Please deliver following message to Prime Minister from Secretary:

"Thank you for your gracious message of April 7 which has been forwarded to me at Bogotá.⁹⁶ I sincerely appreciate the spirit of cooperation expressed regarding the implementation of the China aid program. Your attitude should do much to increase the effectiveness of the program in assisting China to meet its problems. With warm personal regards."

LOVETT

893.50 Recovery/4-1648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 17, 1948—7 p. m.

582. Exchange of letters cleared with ECA. Drafts given to Pei today for info Chi Govt prior initiation discussions here and formal exchange letters with Chi Ambassador. It is not anticipated negotiations these letters will present any difficulty in view moderate terms contained therein and early Chinese approval will enable prompt implementation program.

Outgoing letter same as that quoted our 528, April 10, except for second, fifth and sixth paragraphs. New versions these paragraphs quoted below for your info and assistance if Chi Govt should approach you. Believe provision sixth paragraph covers point raised your 688, April 16.⁹⁷

Second: "Pending the conclusion of an agreement between China and the United States under Section 405 of the Act and until July 3, 1948, the Government of the United States proposes to arrange for the performance of those functions authorized by the Act which may be determined to be essential in furtherance of those purposes of the Act which apply to the funds authorized under Section 404(a) thereof. This action by the Government of the United States is contingent upon certain requirements, as hereinafter set forth, being fulfilled."

Fifth: "During the period covered by this letter, it is anticipated that assistance other than that relating to reconstruction projects will be furnished to your Government under the Act with funds authorized under Section 404(a) thereof by grant. Terms of payment, if any, for reconstruction assistance will be reserved for later determination."

⁹⁶ The Secretary of State was serving as Chairman of the American delegation to the Ninth International Conference of American States which convened at Bogotá on March 30.

⁹⁷ Telegram No. 688 suggested insertion in paragraph 6 between the words "used" and "for" of words, "in accordance with the terms of that agreement or".

Sixth: "I suggest that pending the determination of the terms of the future agreement between our two Governments under Section 405 of the Act, deposits in the currency of your country in respect of any assistance furnished hereunder which is designated by my Government as a grant be made in accordance with the agreement between our two Governments dated October 27, 1947. I further suggest that these deposits may be used for administrative expenses of the Government of the United States in the currency of your country, incident to my Government's operations within your country under the China Aid Act of 1948, and for such other purposes as may be agreed upon by our two Governments. The provisions of the future agreement between our two Governments concerning any deposits in Chinese currency to be made will apply with respect to all of such assistance for your Government which is determined to have been made by grant during the period covered by this letter."

Draft reply from Chinese Ambassador to Secretary State follows:
[Here follows text of draft reply of the Chinese Ambassador.]⁹⁸
Repeat to Shanghai as 693.

LOVETT

893.50 Recovery/4-1748

The Ambassador in China (Stuart) to the Secretary of State

No. 183

NANKING, April 17, 1948.

[Received April 26.]

SIR: I have the honor to comment on the Foreign Assistance Act of 1948 as it concerns China, the essential features of which were further clarified in the Department's telegram no. 519 of April 8, 1948⁹⁹ awaiting me on my return from South China. Needless to say I am delighted with this outcome of the long-drawn-out consideration of this matter. My satisfaction applies not only to the general terms but to the details as well. As I have frequently pointed out to Chinese friends, they should not be so much concerned with the amount of money involved as with the good use to which they put what is made available and the results they can thus obtain. It is this aspect of it that concerns me now while waiting for information as to concrete procedure.

(1) There are two ways in which the Chinese can accept American advisory control. They can regard this as a necessary concession in order to get the material assistance and can more or less perfunctorily comply with our demands. Or they can be made to recognize the good sense of this feature, its practical value, the longer experience or tech-

⁹⁸ Formal exchange of notes between the Secretary of State and the Chinese Ambassador took place April 30; for text, see Department of State *Bulletin*, May 16, 1948, pp. 647-648.

⁹⁹ *Post*, p. 506.

nical attainments we possess, and adopt or adapt our ideas on their own volition because they have been convinced of the superiority of these methods to their own traditional ones. I take it that this latter attitude is the one hoped for in the framing of the Act. It is certainly the one that I shall urge upon the Chinese in every way I can. If the former point-of-view dominates their behavior, when this supply is exhausted they will be back again about where they are now, except that there will be nothing more to hope for from us. By the latter approach, heartily entered upon, they will have had an educational or experimental discipline which can well be of lasting benefit.

(2) There ought in my opinion to be an integration, wherever possible, of Chinese and American agencies. The in many respects unfortunate results of UNRRA and CNRRA¹ are perhaps largely due to the existence of the two independent bodies. There were faults on both sides without enough of the corrective influences from mutual exchange of views and closer comradeship. A further lesson from these and other American activities in China is the supreme importance of employing Americans familiar with Chinese life or at least ready to learn how to win the friendship and respect of the Chinese people. It would be helpful to rely largely upon the voluntary agencies long established in this country, understood and trusted by its people.

(3) There is the very real danger that the K. M. T.² Government rather than the Chinese people will benefit primarily by this generosity of ours. Many intellectuals and other non-partisans would almost prefer that there be no American aid because of fear of this. It is not merely the temptation to graft or to secure selfish advantages by improper means. I am thinking almost more of the narrow, short-sighted outlook of those who would subordinate the nation to the Government or the Party. Their motives may be praiseworthy but their methods might well defeat our purpose and even their own real objectives. They must excel the Communists in getting down to the "grass-roots" as they never have before. They must win the people before they can win the war. But unless we constantly urge this upon them I fear that even the best among them are too harassed, too fixed in their habits and inherited patterns, to do so on their own initiative.

(4) This emphasis on the people can give a better orientation to the military aims of the Government. These could be regarded as not so much to slaughter Communists as to bring peace and economic recovery to at least a portion of the long-suffering population by containing the Communists beyond a certain border until they are ready for a negotiated peace or the Government becomes strong enough militarily and in popular support to liquidate their armed resistance. This requires of course radical reforms, especially in local administration and in military discipline.

(6) The item for Rural Reconstruction is especially gratifying to me because it seems to go to the very heart of the issue. I assume that this has special reference to the activities of Dr. James Yen. My personal desire would be that this be centered upon training for the rights and duties of citizenship, for organizing against every form of oppression or misrule, for understanding the difference between

¹ Chinese National Relief and Rehabilitation Administration.

² Kuomintang (Nationalist Party).

democracy and dictatorship whether Communist or K. M. T. Along with this there should of course be technical assistance in agriculture, public health, communications, etc. I have no question but that students can be enlisted to carry this message to the rural districts all over the country and their employment in a constructive, patriotic campaign ought to be one of the useful by-products. The committee of three Chinese and two Americans is an illustration of the principle advocated in (2) above.

These comments all have to do with the spirit animating the American assistance and the Chinese acceptance of it. But this is an essential feature in achieving what we have in mind. This is to help China toward peace, economic recovery and true democracy and to strengthen the friendly relations between our two countries as an important element in international stability. The K. M. T. Government is the only vehicle through which we can undertake this. It has been rapidly losing the confidence of its own people. The great majority of them, however, do not want Communism or turn to it only in desperation. The present disastrous trend can only be reversed by the interaction of military, economic and moral or human factors, all of which must be radically changed for the better. For this reason, as I have often argued before, they need our advice in order to enable them to benefit by the material assistance. They are also becoming somewhat more aware of this themselves. I am still hoping that John Blandford and the sort of specialists he would select can form a civilian advisory group.

It adds a dramatic interest to the American assistance that it is becoming effective while the National Assembly is in the process of electing the first President and Vice President under the new Constitution.

Respectfully yours,

J. LEIGHTON STUART

893.50 Recovery/4-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 19, 1948—11 a. m.

[Received 1:39 p. m.]

702. Embassy agrees expenses Jimmy Yen program as understood here would require Chinese currency not US dollars for execution (reference Deptel 494, April 6, 7 p. m.). Exact position of "Yen program" in rural reconstruction still slightly cloudy in Embassy's mind since essence of "Yen program" is believed to be an integrated education for good citizenship to be pursued primarily in rural districts. Embassy agrees such program of tremendous long term benefit and possible substantial immediate profit but has some doubts regarding

wisdom inaugurating what is essentially a long term program with funds generated by what [may] prove to be one year US aid program. Since only local currency required for such program, it presumably could qualify as meritorious project for use of local currency sales proceeds of US aid supplies. An effort, however, should presumably be made to secure some undertaking from Chinese Government to continue support after first year. "Yen program" in any event should be tied to extension program recommended by Sino-American Agricultural Mission.

Embassy agrees highly important to implement findings joint Sino-American Agricultural Mission. This survey was seriously entered into and Chinese Government has been slow in implementing its agreed recommendations. We should now urge immediate steps, giving support from China aid funds along following lines which are discussed in memo of Agriculture to State about January 15 entitled "Agricultural projects in a program of aid to China".³ (See also appendix of "revised preliminary programs for China . . .".⁴)

1. Extension program materials for expansion present program on increased food production including fisheries and promotion export crops especially tung oil.

2. Materials for purchase additional equipment for fertilizer and insecticide manufacture, details to be supplied later.

3. Materials for agricultural land survey.

4. Books and technical publications for four centers.

Above will require US funds now difficult to calculate but may run from 1 to 5 million. CNC funds can be used primarily for: (1) program agricultural extension and home demonstration, see page 4, 3a of January 15 memo; (2) survey work, agricultural economics, and enlargement crop [reporting] service according mission's recommendations; (3) assistance land survey work, see page 5, January 15 memo; (4) certain AIS⁵ projects; (5) some assistance essential features CRM agricultural projects.

Effective results program rural reconstruction will be contingent upon full cooperation provinces. Provincial governments should be assigned duty carrying out progressive steps in program, specially implementation 1946 land law and improvement extension work at hsien level.

Personnel of joint rural reconstruction committee is of great importance. Embassy suggests Dr. Raymond Moyer⁶ as one of the

³ Not printed.

⁴ Not printed; omission indicated in the original.

⁵ Agricultural Industries Service, a program sponsored by UNRRA to develop small-scale industrial plants in selected rural areas of China to serve as demonstration and training centers.

⁶ Of the Department of Agriculture.

American members, the other preferably specialist on land problems. Chinese members should include Jimmy Yen or his supporter, S. Y. Chu (this being Ambassador's personal recommendation), Chang Fu-liang, and Dr. Paul Ma or Dr. T. H. Shen, or possibly P. W. Tsou. Embassy suggests liaison committee to work with mission, including Minister of Agriculture, Director of Agriculture, Director of Agricultural Research Bureau, one representative each of Agricultural Education, Agricultural Extension, Agricultural Credit, Chief Export Products, and Land Administration to advise on and screen projects. Ministry of Agriculture might establish committee within Ministry to draw up projects for submission through liaison committee. Embassy suggests Economic Counselor and Agricultural Bureau Attaché be appointed advisors to joint commission of five and liaison committee.

Presumably some specialist US personnel could be provided from China aid funds but main group specialists could be supplied under Smith-Mundt bill.⁷ It is important projects under rural reconstruction program should be coordinated fully with present CRM, FAO,⁸ BOTRA,⁹ educational foundation under Fulbright bill,¹⁰ and other projects relating to agriculture.

It is hoped Minister of Agriculture of new Cabinet will have more recognition and power in carrying out agricultural improvement measures than present Minister¹¹ or his recent predecessors. In any event program should be taken up and agreed at high level, not necessarily through Ministry of Agriculture.

Sent Department 702; repeated Shanghai 287.

STUART

893.50 Recovery/4-2148 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, April 21, 1948—1 p. m.

718. Following summarizes present version draft on use of \$50 million RFC advance. This transmitted to ECA and Pei. Intention is that steps to implement this or similar supply programs should be initiated immediately following exchange letters of intent.

⁷ Approved January 27, 1948; 62 Stat. 6.

⁸ Food and Agriculture Organization of the United Nations.

⁹ Board of Trustees for Rehabilitation Affairs of China.

¹⁰ Approved August 1, 1946; 60 Stat. 754.

¹¹ Tso Shun-sheng.

"State recommended to Bureau of Budget ¹² that \$50 million RFC advance be divided \$36.5 million for assistance under section 404-*a* and \$13.5 million for additional aid under section 404-*b*. Proposed expenditures under \$36.5 million advance as follows: cereals 13.5; cotton 13; petroleum 8; fertilizer 1.5; reserve .5.

"Contemplated payments might be made for arrivals in China after date enactment legislation (April 3) with understanding aid advanced for any commodity listed above would be deducted from total aid for that commodity available during year.

"Assuming appropriation \$338 million, of which \$60 for reconstruction, \$36.5 would provide approximately 1.5 months imports scheduled commodities. Proposed allocation not strictly this basis. Judged desirable take account pipeline and possibility reimbursement for orders already placed. For cotton, petroleum products and possibly fertilizers, ECA financing would probably involve reimbursement for goods in pipeline. For cereals would involve placing orders for shipment April, May and June.

"Cereals: \$13.5 made up as follows: Wheat or equivalent, U.S. (April-June order and shipment) 18,000 long tons \$2,088,000; rice, Southeast Asia (April-June order and shipment) 57,000 long tons \$11,400,000. Program will complete cereals purchases in US projected under Aid Program for April-June period. Allocations for US rice for period being taken up by USFRP. China's unlifted allocations Southeast Asia rice for period through June 1948 approximately 153,000 tons April 1. Propose to lift 82,000 tons under Aid Program of which 57,000 tons would be procured under RFC advance and 25,000 tons after appropriation available. In addition to amounts procured with US funds, SEA ¹³ allocations amounting to about 71,000 tons will remain available until July 1 for procurement by China with her own funds.

"Cotton: \$13 million will finance approx 66,000 bales. Substantially more now on order through established channels for April and May shipment from the US.

"Petroleum: \$8 million would cover only imports for civilian purposes for which dollar payments required. Programming should take account fact commercial companies schedule shipment several months advance and normally maintain substantial stocks bonded tanks China. On April 1, after deductions for military and sterling imports, value petroleum products enroute China \$3 million and value petroleum products in bonded tanks \$5.3. (Figures indicate magnitude pipeline; products to be bought under Aid Program for later determination.)

"Fertilizer: \$1.5 million as originally suggested Chinese Technical Mission, with which this proposed breakdown discussed. China has paid some \$8 million for imports nitrogenous fertilizer during first half 1948, of which more than \$1.5 million understood scheduled for arrival China after April 3. Further information necessary to determine relative desirability using \$1.5 million for reimbursement or new orders.

"Reserve: \$500,000 for possible use necessary surveys or other purposes reconstruction projects."

¹² Letter of April 12, not printed.

¹³ Southeast Asia.

Comments on Deptel 518 April 8 (repeated Shanghai as 622) and 556 April 14 (repeated Shanghai as 661)¹⁴ have been informative and helpful (Shanghai's 821 April 10; 856, 857, 861 April 16; 864 and 865 April 19; and Nanking's 705 April 19¹⁵). Please comment now on proposed allocation RFC advance. No objection to discussion with Chinese your end also. Sent Shanghai as 718. Repeated Nanking as 598.

LOVETT

893.50 Recovery/5-348: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 3, 1948—6 p. m.

663. Before leaving for China James Yen had meeting with Hoffman, followed by detailed discussions with ECA and Dept. Although Yen started with apparent assumption that one-tenth of \$338 million would be allocated in foreign exchange to expand the Mass Education Movement, it was made clear that thinking here encompassed rural reconstruction program which would include Mass Education approach but also implementation recommendations Sino-American Agricultural Mission and some special attention to small rural industries. It was explained that 10 percent provision was a ceiling, and could be spent either in local currency or foreign exchange, probably mostly in local currency. Upon departure Yen received letter from Hoffman emphasizing need for careful preparation of realistic program, and for clear distinction between expenditures to be made in foreign exchange and those in local currency.

Within this framework, Yen appeared inclined to recommend expansion and development of Mass Education Movement's program along two lines: (a) extensive program of literacy teaching, including some rudimentary work in fields of preventive public health and cooperatives for marketing, credit and purchasing; and (b) special intensive program in two or three areas, linking up education, livelihood, health and self-government along lines indicated by past experimentation Mass Education Movement. One of these intensive areas would presumably be Szechwan District in which Movement now operates.

Now developing draft of special bilateral agreement covering Rural Reconstruction Commission.¹⁶ In this connection we would appreciate views Embassy and ConGen on relationship this Commission to Central Government, bearing in mind that law provides Commission must operate under direction and control of Administrator.

¹⁴ Neither printed.

¹⁵ None printed; they commented on petroleum products, tobacco, fertilizer, grains, cotton, and commercial aircraft in the China Aid Program.

¹⁶ For correspondence on negotiation of this agreement, see pp. 601 ff.

When this draft is completed Dept will send it to Embassy¹⁷ with instructions covering negotiation of this special bilateral agreement in Nanking. Consideration being given to possibility sending Moyer¹⁸ assist in negotiations and to discuss with concerned agencies development of realistic programs.

Sent Nanking as 663, repeated Shanghai as 803.

MARSHALL

893.50 Recovery/5-448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 4, 1948—6 p. m.

670. From ECA. ECA has decided to organize special reconstruction survey mission, as part of general ECA Mission, but possibly going to China prior to appointment and dispatch over-all Chief of ECA Mission.

Reconstruction mission's purpose would be to recommend to Administrator (a) total amount of funds to be allotted to reconstruction (\$60 million figure should not be regarded as firm. Tentative ECA view is that it might be increased.) ; (b) recommend allotment of total amount among projects; (c) get sponsors of approved projects to prepare detailed project proposals which would need to be approved by Administrator before being put into effect; (d) with respect to each project recommend whether assistance should be by loan or grant or a combination (This is the line with preliminary view of National Advisory Council that the grant-loan status of each project should be considered on its merits.).

Reconstruction group will consist of six to eight people, and should get to work in China as soon as possible, certainly by end of May. ECA wishes to use Americans already in China to extent competent people are available. Embassy and ConGen recommendations requested as to individuals, especially engineers or economists, who might be recruited locally for short-term mission this character, as well as any suggestions on recruitment in US for this purpose.

Sent Nanking as 670, repeated Shanghai as 814. [ECA.]

MARSHALL

893.50 Recovery/5-648 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, May 6, 1948—5 p. m.

[Received May 6—6:24 a. m.]

1002. For ECA and Agriculture. Contents Deptel 663, May 3, 6 p. m., repeated Shanghai 803, most helpful. Embassy and Consul

¹⁷ See Department's telegram No. 810, May 28, 7 p. m., p. 601.

¹⁸ Raymond T. Moyer, of the Department of Agriculture.

General in full agreement with Washington thinking on rural reconstruction program as therein expressed.

Regarding relationship RR ¹⁹ Commission to Central Government, Embassy and Consul General believe commission should be on hierarchical level with and in close liaison to American Aid Council now announced as being set up by Chinese Government under chairmanship of Premier. Two American members of commission under law presumably would take direction from administrator, whose ultimate control over activities of commission would reside in his share of control over disposition of CNC proceeds from sale of aid commodities and his unilateral control over any US dollar funds allocated to work of commission. Believed important that commission should not be established at level where it would be a creature of Ministry of Agriculture.

Embassy would welcome Moyer's presence in Nanking to assist in negotiation special bilateral agreement. Meanwhile will attempt develop here further ideas this general subject for submission to Washington. Gilpatric concurs.

Sent Department, repeated Nanking 772.

CABOT

893.50 Recovery/5-648 : Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)

WASHINGTON, May 15, 1948—noon.

920. From Hoffman, ECA. Reur 1002 May 6. Your reference to nature of control and direction by Administrator of Rural Reconstruction Commission seems somewhat too narrow from standpoint of clear intent legislation. While day to day control will certainly be exercised through allocations from CNC account and dollar allocations through program sponsored by Commission, law clearly indicates Commission responsible to Administrator. Necessary relationships with Government, in order to fit Commission program and purely Government programs together will be worked out in special bilateral agreement covering establishment of Mission. Draft this agreement now under discussion. Negotiations on it will be held Nanking.

ECA plans send Moyer to China as part of Reconstruction Survey Group ²⁰ scheduled leave Washington last week in May.

Sent Shanghai as 920, repeated Nanking as 737. [Hoffman, ECA.]

MARSHALL

¹⁹ Rural Reconstruction.

²⁰ The Reconstruction Survey Mission arrived in China in June, charged with recommending to the ECA the allocation of funds for reconstruction projects under the China Aid Act of 1948. Its director was Charles L. Stillman.

II. AGREEMENT BETWEEN THE UNITED STATES AND CHINA ON ECONOMIC AID, SIGNED AT NANKING, JULY 3, 1948

893.50 Recovery/4-648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 8, 1948—6 p. m.

519. 1. Dept believes bilateral agreement required by Sec 405 Title IV ²¹ should apply only extension economic aid to be appropriated under Sec 404 (a). Grant authorized by Sec 404 (b) ²² can be handled by separate exchange notes covering administrative terms withdrawal funds. Bilateral agreement per se should be primarily for purpose obtain Chinese commitments re control and disposal US aid goods and equivalent local currency account (including Joint Committee on Rural Reconstruction ²³), and re improvement US commercial relations with China. In addition, it should incorporate, where applicable to China, provisions re general domestic economic and financial objectives along lines specified by Act for European countries.²⁴ In this connection, agreement could take cognizance Chinese undertakings re internal reforms indicated Chang Chun's Jan 28 statement.²⁵ In view significance this instrument and necessity obtain decision highest levels Chinese Govt, Dept believes desirable bilateral agreement be negotiated Nanking. Instructions will follow.

2. Effectiveness aid program as more than stop-gap device obviously requires Chinese go from general commitments re internal reforms to specific undertakings re practical step necessary arrest economic and financial deterioration. China Aid Program has been justified in report of Senate Foreign Relations Committee ²⁶ as effort to "give hard-working people of China chance to arrest rate of economic deterioration in China, and afford Chinese Government further opportunity to undertake vigorous program of self-help". Purpose clause Act states "assistance provided by the US under this title should at all times be dependent upon cooperation by the Republic of China in furthering the program". For your personal info, it was sense Congressional Committees that question future US aid to China would be greatly influenced by Chinese performance this regard. It is incumbent US Govt take this occasion vigorously renew efforts induce prompt and effective even though rough and ready measures.

²¹ Foreign Assistance Act of 1948, approved April 3, 1948; 62 Stat. 137. Title IV was known as the "China Aid Act of 1948"; 62 Stat. 158.

²² For correspondence on this subject, see pp. 73 ff.

²³ For correspondence on negotiation of agreement establishing Joint Commission on Rural Reconstruction in China, see pp. 601 ff.

²⁴ Economic Cooperation Act of 1948, Title I of Foreign Assistance Act of 1948.

²⁵ For text, see note from the Chinese Embassy, p. 462; Chang Chun was President of the Chinese Executive Yuan.

²⁶ Senate Report No. 1026, March 25, 1948, 80th Cong., 2d sess., p. 7.

3. Regard for Chinese sovereignty argues against inclusion detailed undertakings re internal reform [in] bilateral agreement. Dept considering desirability initiate conversations Chinese Govt on high level Nanking directed towards obtaining informally Chinese Govt undertakings as to specific actions and time such actions. This would carry forward discussions held here informally with Chinese Technical Mission based upon lengthy Chinese text²⁷ expounding plans implement Chang Chun's Jan 28 statement. Problems to be dealt with may range from (1) basic but most difficult tasks, such as steps toward budget rationalization and control by Chinese fiscal authorities of total Govt expenditures, or implementation land reform policies, to (2) peripheral problems more susceptible of early solution which would result in some improvement tax revenues or foreign exchange earnings. In order achieve maximum effect, such conversations would be begun as part of discussion leading to signature bilateral agreement, although efforts encourage action would obviously have to be continued throughout period of aid program. As indicated in previous telegrams re Dr. Young's program,²⁸ US Aid Mission might provide small number policy advisors and technicians to work closely with Chinese Govt agencies responsible carrying out proposals for which significant concrete action appears reasonable possibility.

4. Request your views re desirability, scope and form such conversations, including your advice as to practical steps that can realistically be expected from Chinese Govt in implementation Chang Chun statement. Embtel 614 April 6²⁹ noted. Copies plan submitted by Chinese Technical Mission being sent pouch,³⁰ but your comments should not await their arrival. You may be able obtain copies Chinese Govt.

LOVETT

893.50 Recovery/4-1448: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 14, 1948—5 p. m.

[Received April 14—10:54 a. m.]

669. Embassy appreciates most helpful flow information re aid program (Ref Embtel 614, April 6; ²⁹ Deptel 519, April 8 and Deptels 527 and 528, April 10³¹). With specific reference Deptel 519, Em-

²⁷ Ten reports submitted to the Department by Pei Tsu-yi, Chairman of the Chinese Technical Mission; see footnote 44, p. 464.

²⁸ The program of Arthur Young, American financial adviser to the Chinese Government, is set forth in telegram No. 2223, November 10, 1947, 4 p. m., *Foreign Relations*, 1947, vol. VII, p. 1205.

²⁹ *Ante*, p. 486.

³⁰ Instruction No. 57, April 10, not printed. Its inclosures not found attached to either Department or Embassy file copies of instruction. Presumably, they are the Mission's memorandum of January 23, p. 457, and the 10 reports submitted by Mr. Pei (not printed).

³¹ For telegrams Nos. 527 and 528, see pp. 491 and 492, respectively.

bassy agrees (1) bilateral agreement required by section 405 should cover only aid under section 404a; (2) prior to and during negotiation bilateral agreement discussions should take place at highest level Chinese Government for purpose of maximizing Chinese commitments to be incorporated in bilateral agreement and concurrently securing specific private undertakings on matters where publicity might jeopardize Chinese Government's ability to perform.

I. Embassy recognizes complexity inherent in drafting and negotiating bilateral agreement. To Embassy there appear pronounced advantages to USA in building agreement on appropriate provisions which Foreign Assistance Act requires of European participants. Moreover, similarity to European pattern would be more palatable to Chinese. Embassy's suggestions re form and content draft Bilateral Agreement follow:

1. Following appropriate statement of intent (derived from section 402 of Act) there could be inserted subparagraphs 1 through 10 of subsection *b* of section 115. It would appear that these could be abstracted verbatim with following exceptions: Modification of 3 in direction of generalized undertaking to reduce trade barriers; condensing section 4 to express intention on part of Chinese Government to locate and use Chinese assets in USA; and appropriate but minor rewording of 9 to make clear that China must submit to same rules of equity as European countries in allocation of scarce materials. It might be well to name materials available in China in increased production of which USA has an interest such as tungsten, antimony, bristles, tung oil and possibly tin.

2. Ten specific points of Premier Chang Chun's January 28 public statement could then be incorporated verbatim with introductory language to effect that these 10 objectives constitute financial and economic policy of Chinese Government and that specific and effective measures to put them in force constitute an undertaking of Chinese Government under this Agreement.

3. Finally certain provisions of Agreement of October 27, 1947 between US and China³³ which are not specifically covered by 10 points drawn from section 115, and which are not otherwise in conflict with terms of Foreign Assistance Act should be incorporated by reference into draft bilateral agreement.

II. Foregoing would appear to cover water front insofar as maximum possible public undertakings by Chinese Government are concerned. During course of contemplated discussions Embassy suggests that specific but private engagements should be sought on following:

³³ On United States relief assistance to the Chinese people, signed at Nanking; Department of State Treaties and Other International Acts Series No. 1674, or 61 Stat. (pt. 4) 3374. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1947, vol. VII, pp. 1293 ff.

1. Reopening river ports for all shipping if possible but at least for US aid cargoes.

2. Prompt adherence to GATT.³⁴

3. Assurance that if and when Treaty of Friendship, Navigation and Commerce³⁵ shall come into force, most-favored-nation treatment for USA will apply with respect to all articles of such treaty in which most-favored-nation treatment is not specifically stipulated.³⁶

4. Agreement that Universal Trading Corporation³⁷ shall in fact restrict its purchases in USA to those made on behalf of Ministries and agencies of Government.

5. An engagement that within a stated period, say 3 months, Chinese shall present to US Government for comment a specific program for modification of export-import controls and exchange regulations designed to provide maximum freedom in commercial interchanges.

III. In conclusion Embassy believes that least of difficulties confronting successful operation of China Aid Program will lie in extracting sweeping public and private undertakings from Chinese Government. Heart of difficulty resides in Government's chronic inability or unwillingness to execute its promises. Course of action most likely to produce constructive and durable results would in Embassy's opinion be following:

1. Maximum public undertakings by Chinese Government in bilateral agreement supplemented by private engagements where practicalities so required as discussed above.

2. Insertion into key posts in operational Chinese Ministries of top-drawer US technical experts who would report directly to chief of Economic Cooperation Mission.³⁸

3. Maximum delegation of authority by administrator in Washington to chief of ECM in China thereby insuring latter's ability to withhold or interrupt aid on specific projects on phases of operation without prior reference to Washington.

³⁴ General Agreement on Tariffs and Trade adopted at Geneva, October 30, 1947, by the Preparatory Committee of the United Nations Conference on Trade and Employment; Treaties and Other International Acts Series No. 1700, or 61 Stat. pts. 5 and 6.

³⁵ Signed at Nanking, November 4, 1946; Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

³⁶ In telegram No. 676, April 15, 3 p. m., the Embassy suggested that the following be substituted for this paragraph: "Assurance that if and when the Treaty of Friendship, Commerce and Navigation shall come into force, unconditional most-favored-nation treatment for the US will apply with respect to all articles of such treaty in which MFN treatment is specifically stipulated." (893.50-Recovery/4-1548)

³⁷ An official Chinese agency incorporated under the laws of the State of New York, October 18, 1938. Its chief functions were to market tung oil and other Chinese products in the United States and to act as purchasing agent in the United States against Export-Import Bank credits to China. For correspondence on the curtailment of its activities, see *Foreign Relations*, 1947, vol. VII, pp. 1159, 1306, 1376-1383, *passim*.

³⁸ Roger D. Lapham was appointed Chief of the China Mission (ECM) of the Economic Cooperation Administration (ECA) on May 5.

4. A substantial and organized draft on established American business concerns and voluntary agencies in China for advice and manpower.

IV. Embassy regrets that owing to his inaccessibility in North China on CRM business Gilpatric's ³⁹ specific comments are not incorporated in this telegram. Likewise full comments ConGen Shanghai not at hand. Additional recommendations may follow after consultations.

Sent Secretary State as 669, April 14, repeated AmConGen Shanghai as 270.

STUART

893.50 Recovery/4-2748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 27, 1948—6 p. m.

640. Pei Tsu-yi and Paul Chu ⁴⁰ left here by air April 24 and believed scheduled arrive Shanghai April 28 Washington time. Rest of Technical Mission remaining here temporarily, Kan Lee in charge. Just before Pei's departure, Dept presented him informally topical list points relating Bilateral Agreement and implementation aid program not heretofore discussed Chinese in order that he may discuss them informally with Chinese Govt. Dept stated these points represent matters of concern to U. S. Govt but did not take firm position re their substantive contents, and indicated list not necessarily exhaustive. Brief discussion was held on several points to indicate character Dept's thinking. Following is topical list presented Pei and résumé discussion.

A. Bilateral Agreement on China Aid Program should include articles on following matters:

1. Preamble stating purposes of program. Discussion: This can be based upon language of Section 402 of Act.

2. Statement of authority under which U. S. will provide aid. Discussion: This could be a general section which makes reference to the clearly applicable provisions of Title I, with particular reference to Sections governing procurement.

3. A statement of the terms of distribution and pricing. Discussion: This should establish principles for operation within China, rather than detail methods distribution. Of particular importance is principle of joint determination by Chinese and U. S. Governments.

³⁹ Donald S. Gilpatric, Attaché at the Shanghai Consulate General and Director of the China Relief Mission (CRM) which administered the U. S. Foreign Relief Program (USFRP) in China under the agreement of October 27, 1947.

⁴⁰ Member of the Chinese Technical Mission in Washington.

4. Setting up and management of special local currency account. Discussion: This should be general statement of procedure and of purposes for which account may be used. It should also incorporate principle of joint determination. Section 115(b) (6) provides a guide for the use of such account.

5. Undertakings by the Govt of China with respect to:

a. Promotion of industrial and agricultural production (Section 115 (b) (1)).

b. Measures which will assist in financial stabilization (Section 115(b) (2)).

c. Effective and practical use of all resources, including private foreign assets (115(b) (4)).

d. Facilitation of U. S. stockpiling activities (115 (b) (5) and (9)).

e. Furnishing reports and publication of information on program (115(b) (7 & 8)).

f. Taking all possible steps for practical implementation of Chang Chun's January 28 statement and incorporation of such statement into agreement by reference.

Discussion under 5: Dept pointed out that language of certain undertakings, particularly (a), (b), and (c), might be different from that in Act to take account of special circumstances in China. Regarding 5(c), Pei stated that control of private foreign assets has concerned Chinese Govt for some time but that effective action requires cooperation of U. S. in obtaining info re individual holdings. Pei was told that recent decision now makes possible for U. S. Govt to cooperate with European Govts re release blocked holdings their nationals but that such action not possible for China because Chinese assets unblocked. For your info, it may be desirable that this article include reference foreign exchange assets within China in order to emphasize self-help aspects mobilization such assets. Chinese should not be encouraged anticipate U. S. Govt assistance obtain control assets in U. S. Kan Lee raised strong objection, seconded by Pei, to incorporation Chang Chun's statement [in] Bilateral Agreement on ground this would make it appear to Chinese that Chang Chun's statement had been required by U. S. as *quid pro quo* for aid. Lee stated this objection should not be construed as reluctance implement Chang Chun's statement, and that he had no objection consideration points Chang Chun's statement on individual merits for possible incorporation agreement. Dept called attention reference Chang Chun's statement in Senate Committee's report,⁴¹ and emphasized strong feeling Congress, Executive Branch, and American public that U. S. aid to China, as for Europe, is predicated on vigorous self-help program,

⁴¹ Senate Report No. 1026, 80th Cong., 2d sess., p. 12.

with respect to which particular undertakings should be incorporated Bilateral Agreement.

6. Improvement of commercial relations with China (Section 405).

7. Arbitration clause (Section 115(b) (10)).

8. ECA Mission and Chinese Government arrangement for liaison with it. Discussion: Dept observed that it appears preferable to follow pattern USFRP in coordinating existing Chinese Govt functions rather than establish special operating agency as in UNRRA-CNRRA ⁴² pattern. Chinese Govt liaison should be at high-level with maximum authority.

B. Other points for early consideration:

1. Procedure for initiating work on reconstruction projects. Discussion: Dept stated that detailed plans for high priority projects should be drawn up as rapidly as possible. It is hoped that small group of economists and engineers can be sent China shortly as advance echelon ECA mission to assist Chinese in this work. Each project should receive separate documentation which could be presented Administrator as basis his approval and allocation funds. Important that Chinese coordinate various governmental agencies concerned reconstruction.

2. Formation of Joint Commission on Rural Reconstruction in China. Discussion: Dept stated importance preliminary planning this work indicates desirability separate agreement on Joint Commission be concluded prior signing general Bilateral Agreement. Prompt attention should be devoted scope program and selection Commissioners. Dept stated program should include projects to implement recommendations Sino-American Agricultural Mission ⁴³ and possible rural industrial projects, as well as Yen's program for mass education.

Above may be of assistance Embassy if approached informally by Chinese following Pei's arrival. Dept would appreciate Embassy's comments these matters and will forward promptly further details in course developments here.

MARSHALL

893.50 Recovery/4-1448: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 7, 1948—7 p. m.

694. Depts draft master Bilateral Agreement ERP ⁴⁴ countries and separate draft for China have been circulated for comment other

⁴² United Nations Relief and Rehabilitation Administration and Chinese National Relief and Rehabilitation Administration.

⁴³ For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

⁴⁴ European Recovery Program.

Govt agencies concerned, particularly ECA. It had been hoped that drafts agreed upon within US Govt could be presented for[eig]n Govts early next week, but possible changes desired by other agencies probably will delay such action. Time factor and shortage Dept personnel dictate that negotiation European agreements be conducted here for most part, although actual signing contemplated in European capitals. For reasons mentioned Deptel 519 Apr 8, Dept still believes negotiation China agreement should take place Nanking. Draft China agreement follows genl pattern ERP draft, with appropriate modifications and additions to take account special circumstances China. Text being telegraphed separately⁴⁵ and Embs comments requested soonest.

Dept regards period negotiation as providing best opportunity press for informal Chinese undertakings regarding internal measures of self-help by conducting discussions corollary to actual negotiation text agreement as indicated Deptel 519 Apr 8. Request Embs views desirability initiate corollary discussions promptly as first stage negotiation agreement. Discussions could be explained on ground US desire learn intentions ChiGovt regarding genl undertakings along lines Chang Chun's Jan 28 statement and specific measures in implementation thereof in order assist in drafting bilateral agreement. Text agreement could then be presented when ready after significant emphasis had been given necessity internal reforms. Corollary discussions should of course be continued during course subsequent negotiation.

It is necessary that agreement be signed by July 3 to enable continuity aid. However this consideration should not interfere with placement proper emphasis on internal reform and with obtaining appropriate undertakings in agreement in this regard. Must agreement be ratified by Legislative Yuan? If so how much time should be allowed for such ratification?

Depts comments Embtel 669 Apr 14 and suggestions other topics to be covered in corollary discussions will follow. Would appreciate suggestions from Emb regarding measures primarily of internal-reform character to be emphasized in corollary discussions as requested Deptel 519 Apr 8.

MARSHALL

893.50 Recovery/4-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 7, 1948—7 p. m.

696. Dept studying U. S. policy aspects problem furnishing qualified advisers to ChiGovt (Embtels 630 Apr. 8⁴⁶ and 669 Apr 14) and

⁴⁵ Telegram No. 695, May 7, 7 p. m., not printed.

⁴⁶ Vol. VII, p. 184.

agrees some advisory assistance necessary in connection aid program. With regard top level advisers for functions involving policy, Dept of opinion that if provided by US they should be limited to small number for highly select fields. Account must be taken not only of limited number competent advisers available, but also significance their proposed fields of action from standpoint objectives aid program and extent to which reasonable prospects exist for implementation recommendations made. Fields of advice and relationship advisers ChiGovt and aid mission should minimize possibility for undesirable involvement USGovt in course developments in China and implied responsibility therefor. This particularly true for certain aspects fiscal policy and operations where fundamental solution cannot be reached under present civil war conditions and where US effort exert pressure control and reduction military expenditures might imply US responsibility for ChiGovt military effort and be exploited to obtain commitment in that regard. This would be contrary to intent Congress as described Deptel 489 Apr 6.⁴⁷ Dept believes certain basic fiscal and other policy problems, such as above, cannot be solved through technical advice, but that continuous effort can and should be made in direction of improvements by well timed informal pressure at top levels, e. g., by Chief ECA Mission and top Embassy officials.

Assignment U. S. technical personnel as advisers operational level should also be highly selective and primarily for functions directly related implementation aid program, such as reconstruction projects financed by US appropriation and/or Chinese currency account. In exceptional cases, technical personnel might be assigned advise operations indirectly related aid program which involve minimum policy issues, such as certain aspects foreign exchange operations Central Bank. Largest number technical personnel in advisory capacity probably should be provided reconstruction. US technical assistance to ChiGovt agencies responsible for control or operations distribution expendable US aid commodities should be rendered by members aid mission in course performance normal functions observation and reporting and not by US personnel in capacity advisers assigned to ChiGovt agencies concerned.

Dept thinking now is that specific recommendations on types advisers should be deferred until Chief ECA China Mission has had opportunity study question in China and is able determine ChiGovt exact needs and abilities use advisers in terms China Aid Program. In meantime Dept studying best methods correlate provision technical assistance under Smith-Mundt Act (PL 402 ⁴⁸) with China Aid Program.

⁴⁷ *Ante*, p. 73.

⁴⁸ Approved January 27, 1948; 62 Stat. 6.

Embassy requested comment on foregoing and indicate its views re types and numbers technical personnel and advisers most likely aid implementation China Aid Program.

MARSHALL

893.50 Recovery/5-1048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 10, 1948—3 p. m.

[Received May 10—8:13 a. m.]

843. Embassy agrees bilateral aid agreement should be negotiated Nanking (reference Deptel 694, May 7, 7 p. m.) and that period of its negotiation presents time and opportunity to continue to press Chinese Government for undertakings re self-help and tangible acts in execution of Premier's January 28 statement. Pressures in these directions have been applied by Embassy whenever and wherever occasion offered. Embassy agrees they should be intensified now and during period of bilateral negotiation with implicit but not explicit link.

Two important factors, however, must be borne in mind in any advance estimate of progress which may be made with Chinese Government. In first place, any broad or powerful bargaining position vis-à-vis Chinese Government disappeared on date Congress passed China Aid Act of 1948. Our position rests basically now on more tenuous ground of Chinese hopes for continuation and expansion of aid beyond time period covered by present act. It is true, however, that we retain and should make full use of our bargaining position in the bilateral negotiations with respect to (a) methods of procurement for aid commodities, (b) methods of distribution of aid commodities in China and (c) utilization of CNC⁴⁹ proceeds from sale of aid commodities provided under grant. On the broad front of governmental reform and positive, self-generated fiscal and economic action, we rely for all practical purposes today, in Embassy's opinion, on effectiveness of moral pressure and not on trading position.

The second element to be considered is the limitation on the Chinese Government's ability as opposed to its willingness to take bold, constructive and effective action. The economic and financial status is deteriorating with increased momentum, as witness the doubling within the past week of the black market CNC rate for the US dollar. The military situation shows no improvement nor signs of any in prospect. Politically, there is a paralysis of leadership at the top which has permitted, for example, the tangle over the membership

⁴⁹ Chinese national currency.

of the Legislative Yuan to make it impossible, until a settlement has been reached, for the Generalissimo ⁵⁰ to appoint his new Cabinet.

Under these circumstances, Embassy strongly recommends that we display no haste in the negotiation or conclusion of the bilateral agreement. The exchange of interim letters ⁵¹ provides an entirely satisfactory basis on which to operate in the coming weeks. Moreover, working out in practical terms with the Chinese officials the procedures and operational methods under which the new aid program is to be handled will make more meaningful the language finally agreed and imbedded in the bilateral agreement. Delay will give time, presumably, to learn at least what individuals will head the Ministries directly concerned. Finally, it will extend the period in which our pressures can be applied.

In Embassy's opinion, Generalissimo under emergency powers granted him by National Assembly can sign bilateral agreement without necessity of ratification by Legislative Yuan. We believe it safe to proceed on this assumption though we are checking in various governmental quarters recognizing, however, that no one is in a position to give an authoritative answer in advance of announcement of Cabinet and membership of Judicial Yuan. Embassy, accordingly, recommends that opening of negotiations be deferred until June 1. Meanwhile, pressure for reform will be continued and discussions with Chinese operating officials of procedures, drawing on [CRM] experience, should be pushed.

With respect to topics to be covered in corollary discussions, Embassy believes Premier's 10 points of January 28 provide comprehensive agenda with desirable emphasis to be placed on implementation land reform, on extension of rationing and on fiscal and economic measures to maximize exports. It is presumed that protection of private trade channels can be achieved in course of specific negotiations in bilateral on methods of procurement and distribution of aid commodities.

Embassy will telegraph separately (a) its comments ⁵² on draft

⁵⁰ Chiang Kai-shek, President of the National Government of the Republic of China; President-elect of the Republic of China.

⁵¹ Dated April 30; for text, see Department of State *Bulletin*, May 16, 1948, pp. 647-648.

⁵² The Embassy forwarded its comments in telegram No. 850, May 11 (893.50 Recovery/5-1148). Its key observations dealt with distribution of aid supplies in China. The Embassy held it "vital" that "representatives of the US Government shall have direct supervision and control of supplies made available by the US Government under this agreement". It also sought insertion of a clause for the broadening of a rationing and price control system "for our aid to be effective". Both of these points were borrowed substantially from the agreement of October 27, 1947. The Department's draft provided that these goods "shall be imported, distributed and used in accordance with terms and prices agreed upon from time to time between ChiGovt and US Govt". (893.50 Recovery/5-748)

agreement contained in urtel 695, May 7⁵³ and (b) certain recommendations re operational policies⁵⁴ for aid program.

Gilpatric believed to concur in substance this telegram but will telegraph any disagreements or elaborations on his part.

Sent Department as 843, repeated Shanghai as 359.

STUART

840.50 Recovery/5-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 11, 1948—10 a. m.

[Received May 11—5:13 a. m.]

846. For ECA. In connection impending negotiation bilateral aid agreement and on basis general developments and observation and accumulated CRM experience, Embassy submits following recommendations regarding policies to govern aid program operations. (RefDeptel 694, May 7, 7 p. m. and Embtel 843, May 10).

1. Every effort should be made to keep program as simple as possible. Time is short and available qualified US personnel limited. To help remedy the latter, the American business community in China should be freely drawn on for advice.

2. Commodities supplied under aid program should be pumped through commercial channels to maximum extent feasible. Governments are fickle bankers and an important segment of thinking Chinese recognizes that the massive capital investment required to industrialize and develop China will come, if it comes at all, from US private sources. In creating a climate which will invite such investment the first step is to enable entrepreneurs already established here to live. Furthermore, it can be generally accepted that commercial channels will function more efficiently than Chinese bureaucracy.

3. Assistance to the people of China should be emphasized, particularly in the case of consumable commodities supplied under the program. Rice and flour rationing in the 5 cities⁵⁵ is really working. It should be extended both in number of localities served and in type of goods rationed. Automotive gasoline, cotton yarn and cloth, among other items, should be definitely added to the ration list.

4. A corollary of 3 above is that control of the aid commodities should not end at delivery. The distribution must be supervised. Furthermore, in the case of goods to be processed here, it is the use of the end product, such as cotton cloth, that we are interested in.

5. We should be tough on cutting off individual categories of aid in individual areas if abuses are discovered. For example, if a scandal develops in flour rationing in Peiping, American aid flour should be cut off from that city until the situation is rectified. Such

⁵³ Not printed.

⁵⁴ See *infra*.

⁵⁵ Nanking, Shanghai, Canton, Peiping, and Tientsin.

willingness to act and ability to do without prior reference of each case to Washington appears essential to the provision of effective aid to the Chinese people. The fact should not be overlooked that the best elements at all levels in the Chinese Government hope that we will be prepared to act with a certain toughness. Such an attitude on our part will constitute the most effective method of upholding their hands in their efforts to get things done.

6. We should seek to minimize the potential inflationary impact on the Chinese economy which will arise from the accrual of CNC proceeds from sales of aid commodities. Embassy believes that the proportion of such proceeds which are to be spent on projects should be relatively small and in general confined to carefully screened projects more rehabilitatory than relief in character. However, there are many CRM projects such as grants to voluntary agencies, refugee relief in key spots, etc., etc., which it would be a grave mistake to discontinue.

7. The uncommitted CNC proceeds should be held in suspense, possibly as a book credit, until the close of the program with the intention of then having the credit cancelled. Embassy now believes that US share in control of these CNC funds affords little true bargaining power for accomplishing fiscal or budgetary reform and that to attempt to use such psychological leverage as may exist would involve the US in undesirable semi-responsibilities. To hold them rather than immediately release them for general expenditures, however, might serve as a mild deterrent to any Chinese temptation to treat them as a windfall justifying a spending spree.

Gilpatric unavailable in Nanking for discussion this telegram but believed to be in general agreement first 5 points. It is expected he will telegraph separately his views⁵⁶ in detail particularly regarding points 6 and 7.

Sent Department 846, repeated Shanghai 367.

STUART

893.50 Recovery/5-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 13, 1948—11 a. m.

[Received May 13—4:09 a. m.]

864. Foreign Office has informed us (ReDeptel 694, May 7) that exact scope of Legislative Yuan's power under new constitution with respect to international agreements is yet to be ascertained, but they will take first opportunity to approach Legislative Yuan for definitive decision.

Foreign Office estimates that any necessary procedure in connection with agreement could be completed within about 2 weeks after signature, so long as Legislative Yuan in session. In giving above information, based on Foreign Minister's⁵⁷ views, head of Treaty De-

⁵⁶ Not found in Department files.

⁵⁷ Wang Shih-chieh.

partment ⁵⁸ added that present session of Legislative Yuan is expected to end sometime in June and it would therefore be advisable to expedite negotiations as much as possible. In face of obvious eagerness Chinese Government to conclude agreement, we adhere to view expressed Embtel 843, May 10, that best results will be achieved by delaying tactics.

STUART

893.50 Recovery/5-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 13, 1948—noon.
[Received May 13—4:29 a. m.]

868. For Department and ECA. Embassy agrees entirely with statement general policy contained Deptel 696, May 7 and will forward shortly its specific recommendations re number and strategic location for advisors to Chinese Government.

Sent Department, repeated Shanghai 379.

STUART

893.50 Recovery/5-1348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 15, 1948—1 p. m.

738. Dept fully agrees observations Embtel 843 May 10 and assumes Emb satisfied agreement along lines Deptel 695 May 7 ⁵⁹ can be negotiated beginning June 1 without undue difficulty to allow signature prior July 3. Adequate time negotiation China agreement must be allowed. Majority European drafts were presented yesterday for negotiation. Procedure indicated Embtel 864 May 13 would appear provide only 2 weeks negotiation if ratification requiring 2 weeks must be obtained by Jul 3 to make agreement effective by that date. Efforts being made to reach prompt US govt agreement China draft and text will be sent Emb ⁶⁰ immediately thereafter in accordance comment Art 11, Embtel 850, May 11. ⁶¹ Request Emb's further comments re time factor.

Meanwhile, Dept suggests Emb initiate corollary discussions if not already undertaken, giving special emphasis objectives mentioned

⁵⁸ Hu Ching-yu.

⁵⁹ Not printed.

⁶⁰ See telegram No. 774, May 24, 8 p. m., p. 524.

⁶¹ Not printed; this telegram indicated the desirability of placing a draft agreement in the hands of the Chinese in the reasonably near future because of the time required for translating and checking the Chinese text (893.50 Recovery/5-1148).

second para Deptel 694 May 7 with highest level ChiGovt officials, preferably including Premier, Chang Kia-ngau,⁶² FonMin and other responsible officials at appropriate stages discussion. Ambassador should emphasize to Gimo, when appropriate, significance discussions and importance Chinese informal and formal undertakings and concrete implementations thereof from point of view U.S., and should ensure Gimo informed more important points discussion and Chinese undertakings. Would it not be desirable also keep in touch Li Tsung-jen ⁶³ for same purpose?

Following comments re Section II Embtel 669, Apr 14:

1. Dept believes opening Hankow foreign shipping, even temporarily, should be emphasized as in Chinese economic self interest. However, if Chinese unwilling to go whole hog, Emb should certainly press for permission U. S. aid cargoes unload river ports and carry export cargo from such ports of discharge as necessary efficient implementation aid program and as test case general issue.

2. Unnecessary. Protocol already signed.

3. Unnecessary, in view adequate commitment this regard obtained minutes negotiation commercial treaty, in GATT and ITO,⁶⁴ and proposed Art. IV agreement Deptel 695, May 7.⁶⁵

4. Dept's tentative view is that FonMin's note of Nov. 27, 1947 ⁶⁶ this subject covers matter adequately if Chinese intentions as stated note carried out. Dept may make additional comment this regard after further consideration here.

5. Dept believes emphasis this field should follow lines indicated below. Reference "maximum freedom in commercial interchanges" raises a number of unresolved problems and appears indicate U. S. favors relaxation Chinese trade and exchange controls which, in view continuing emergency, cannot, in general, be considered practical possibility.

In addition point 1 above, following points intended indicate general scope and occasional substance corollary discussions, subject Emb's discretion. Dept believes Emb in better position elaborate subjects appropriate for discussion. Emb should encourage Chinese set forth their own proposals and indicate concrete application in first instance, reserving Emb's comments for emphasis or addition when significant points neglected by Chinese. In general, Dept believes Emb should stress general character problems and measures required, but should treat concrete and specific application as matter for Chinese judgment and responsibility, at same time pressing for informal Chinese undertakings of specific character. Dept has not included

⁶² Governor of the Central Bank of China.

⁶³ Vice-President-elect of the Republic of China.

⁶⁴ International Trade Organization.

⁶⁵ Not printed.

⁶⁶ Not printed; for summary of note, see Embassy's telegram No. 2325, December 2, 1947, 3 p. m., *Foreign Relations*, 1947, vol. VII, p. 1382.

reference below to certain suggestions dealt with by Chinese technical mission here, discussion of which might be taken by Chinese to imply assistance not now anticipated by U. S., such as currency reform or control over private assets in U. S. Question undertaking re assets in U. S. should be avoided pending further study here. Also, reconstruction projects should not be included corollary discussion regarding self-help measures since projects are dependent primarily upon U. S. aid and will receive appropriate attention in due course.

1. *Government Expenditures.*

a) Establishment of budgetary control and standardization accounting, based on short-term projections, in hands of central fiscal authority with power to make allocations for all expenditures and with sufficient political strength to resist demands for unnecessary expenditures.

b) Elimination of non-productive expenditures not essential to efficient civil administration and prosecution of war, such as padded army rolls, troops garrisoned in sheltered areas, Kmt⁶⁷ activities and other purposes for which Emb can find supporting examples.

2. *Govt Receipts.*

a) Emphasis on administrative improvements taxation.

b) Expand measures to protect tax revenue from currency depreciation, such as use multiplication factors, ad valorem taxes and taxation at source.

c) Expedite sale of Govt assets which could be operated more appropriately and efficiently by private enterprise.

3. *Civil and Military Administration.*

a) Adoption or continuation of realistic cost of living index as standard for ensuring more adequate pay for civil employees and soldiers.

b) Drastic and impartial weeding out of civil and military officials guilty of gross inefficiency or corruption.

c) Conscientious reduction of civil and military rolls to eliminate unnecessary employees, combining this with arrangements for retraining severed employees to fit into projects or other productive activity.

d) Coordination and elimination of duplication in civil and military agencies.

4. *Distribution of staple commodities.*

Emphasis, where practicable in Emb's views, on improved administration of, or extension of, distribution controls. Explain essentiality of applying controls or incentives to maintain and expand flow of consumer goods into rural areas as incentive production and movement agricultural goods for urban consumption and export.

5. *Banking and credit.*

Adjustment of banking system in order:

(a) to give Central Bank complete control of banking and credit

⁶⁷ Kuomintang (Nationalist Party).

policy for purpose of checking speculation and ensuring more adequate credit for essential productive economic activity.

(b) to establish clearer demarcation between functions of government and private banks and to prevent favoritism to government banks.

(c) to eliminate uneconomic banking operations, such as the Central Cooperative Bank.

6. *Agricultural Improvement.*

Emphasis on implementation of recommendations of Joint U. S.-China Agricultural Mission, with special reference land reform policy, where desirable in judgment Emb.

7. *Foreign Trade and its Controls.*

Emphasis on:

(a) Administrative improvements in import and exchange controls, including coordination throughout China of control procedures.

(b) More realistic exchange rate policies.

(c) Adequate credit for production and marketing of export goods.

(d) Improvement in quality and standardization of export goods.

8. *Encouragement to private enterprise.*

(a) Clarification, by action as well as by statement, of fields open to private enterprise without governmental intrusion.

(b) Elimination of special privilege in foreign trade and domestic enterprise if Emb feels it can appropriately press this point.

MARSHALL

893.50 Recovery/5-1948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 19, 1948—9 a. m.

[Received May 20—3: 53 a. m.]

895. Embassy remains of opinion bilateral agreement can be negotiated and signed by July 3 even if formal negotiations not inaugurated until June 1 (reference first paragraph Deptel 738, May 15, 1 p. m.). Highly desirable, however, that English text US draft be available for presentation to Chinese for translation and study 1 week in advance June 1. Despite Foreign Office informal opinion reported in Embtel 864 of May 13 and absence ability secure authoritative opinion, Embassy believes it remains safe assumption that Legislative Yuan approval not necessary prior to signature and entry into force of bilateral agreement.

Sent Department 895; repeated Shanghai 397.

STUART

893.50 Recovery/5-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20, 1948—3 p. m.

[Received May 21—9:44 a. m.]

916. For Dept and ECA. After consultation with ConGen Shanghai, Embassy recommends that total high level advisers should be held to 9 or 10 exclusive of those sitting on or attached to projected rural rehabilitation commission. (RefDeptel 696, May 7, and Embtel 868, May 13.) Men selected should be absolutely first class and recognized as authorities in their respective fields. *Sine qua non* is that they be on US Government payroll (presumably ECA) and the prior understanding exists that if they are frustrated, fenced in or their advice disregarded they will be ostentatiously withdrawn with public statement of reasons. Our specific recommendation re locations follows: Adviser on foreign exchange for Central Bank; adviser on food procurement for Ministry of Foods; adviser on land utilization and another on forestry, both for Department of Agriculture and Forestry; adviser on communications for Ministry of Commerce; adviser on labor relations for Ministry Social Affairs; adviser on taxes and budget expert, both for Ministry Finance; expert on public administration, possibly best attached to President [of] Executive Yuan.

In view breadth certain above fields, additional subordinate technicians might be required bringing total American advisory group not to exceed 20.

Although specific numbers and locations have not been discussed with Chinese Government, there is no doubt but that from Gimo down receptivity exists. Embassy agrees on wisdom of awaiting Lapham's arrival and his opportunity to study question on ground before carrying matter further with Chinese.

Sent Department as 916; repeated Shanghai as 407.

STUART

893.50 Recovery/5-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 24, 1948—8 p. m.

773. Text draft China Aid Bilateral Agreement being sent following telegram ⁶⁸ for immediate presentation Chinese Govt to allow time study and translation as suggested by Embassy. Emb requested inform Chinese that present text is draft to which US may wish make

⁶⁸ *Infra*.

subsequent additions or modifications; that agreement has been written substantially in accordance with statutory provisions or legislative history of China Aid Act; that US is treating draft agreement and negotiation thereon as confidential and requests ChiGovt do likewise.

NAC⁶⁹ considering advisability inclusion Article VIII requiring ChiGovt consultation with US Govt regarding exchange rate policy. Similar article requiring consultation International Monetary Fund or US Govt being included European Agreements. Emb should delete Article VIII and parenthetical note in text presented ChiGovt, renumbering subsequent articles accordingly.

Delete text Article III (Three) in draft given Chinese, but retain numbered heading, adding parenthetical note, as follows: Govt of the US will submit provisions regarding improvement of commercial relations at later stage in the negotiation.

Substantive comments various points will be telegraphed prior June 1.

MARSHALL

893.50 Recovery/5-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 24, 1948—8 p. m.

774. Following is text draft bilateral agreement with China to be presented ChiGovt in accordance Deptel 773 May 24, 8 p. m.

PREAMBLE

The Governments of the United States of America and China:

Having in mind the considerations set forth in Section 402 of the China [Aid] Act of 1948, as follows:

(Quote entire Section 402 verbatim within quotation marks beginning with word "recognizing".)

Considering that it is the policy of the Government of China to undertake a vigorous program of self-help in order to create more stable economic conditions in China, and to improve commercial relations with other countries;

Have agreed as follows:

Article I—1. The Government of the United States of America undertakes to assist the people of China by making available to the Government of China, or to any person, agency or organization designated by the Government of China, such commodities, services and other assistance as may be requested by the Government of China and authorized by the China Aid Act of 1948 (other than Section 404(b))

⁶⁹ National Advisory Council.

thereof), and appropriation acts thereunder, and approved by the Government of the United States of America.

2. The undertakings of the Government of the United States of America under this Article are subject to the provisions of the China Aid Act of 1948 and shall not be construed to obligate the Government of the United States of America to furnish specific assistance or to guarantee the availability of specific commodities or services. The Government of the United States of America may suspend or terminate at any time the assistance under this Article.

Article II—The Government of China undertakes:

a) to adopt the measures necessary to assure efficient and practical use of the economic resources under its control or jurisdiction, including the assistance furnished pursuant to this Agreement;

b) to promote the development of industrial and agricultural production on an economic basis;

c) to initiate and maintain financial, monetary, budgetary and administrative measures necessary for the creation of more stable currency conditions and for the promotion of production and marketing of goods for domestic consumption and export;

d) to cooperate with other countries in facilitating and stimulating an increasing interchange of goods and services with other countries and in reducing public and private barriers to trade with other countries.

Article III—1. The Government of China undertakes to make all practicable efforts to improve commercial relations with other countries, including measures to improve the conditions affecting the carrying on of foreign trade by private enterprises in China.

2. The Governments of China and the United States of America will consult, upon the request of either Government, regarding any matter relating to the application of the provisions of this Article.

Article IV—1. The Government of China undertakes to adopt or maintain such measures of control as may be necessary to prevent the diversion of assistance obtained under the provisions of this Agreement from the uses for which it was furnished or to uses inconsistent with the purposes of this Agreement. These measures shall include effective measures for the prevention of pilferage and of the diversion of commodities furnished under this Agreement to illegal or improper markets or channels of trade.

2. The Government of China undertakes to ensure that all commodities provided by the Government of the United States of America pursuant to this Agreement shall be processed, distributed and sold only in accordance with price policies, terms and conditions agreed upon from time to time between the two Governments.

3. The Government of China will take all appropriate steps designed to achieve fair and equitable distribution within the areas under its control of commodities provided by the Government of the United States of America pursuant to this Agreement, and of similar commodities imported into China with other funds or produced locally.

Article V—1. *a)* The United States of America and China shall each accord to the commerce of the other, immediately and unconditionally, treatment no less favorable than that accorded to the commerce of any third country, provided that departures from the application of such most-favored-nation treatment shall be permitted to the extent that they are in accord with the exceptions recognized in the Havana Charter for an International Trade Organization.⁷⁰ The provisions of this sub-paragraph shall not be construed to require adherence to the procedures specified in the Havana Charter with regard to the exceptions to most-favored-nation treatment.

b) The provisions of sub-paragraph (*a*) shall apply to China and to all territory under the sovereignty or authority of the United States of America. Moreover, if the Government of either country has authority with respect to the conduct of the international trade of any area in Western Germany, the Free Territory of Trieste, Japan, or Southern Korea, such Government shall exercise such authority, to the extent of its legal capacity, to make the treatment provided for in sub-paragraph (*a*) applicable by such area to the commerce of the other country, and the Government of such other country shall accord the treatment provided for in sub-paragraph (*a*) to the commerce of such area.

c) The provisions of sub-paragraph (*a*) and (*b*) shall not derogate from such other obligations relative to the matters contained herein as may at any time be in effect between the two Governments.

2. The Government of China will take appropriate measures and will cooperate with other countries to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which have the effect of interfering with the purposes and policies of this Agreement.

Article VI—1. The Government of China will, to the extent practicable, take measures to locate, identify and put into appropriate use, in furtherance of its efforts to achieve more stable economic conditions in China, assets, and earnings therefrom, which are owned or beneficially owned by citizens of China and which are situated within the United States of America, its territories or possessions.

⁷⁰ Approved March 24, 1948, by the United Nations Conference on Trade and Employment; for text, see Department of State Commercial Policy Series No. 113: *Havana Charter for an International Trade Organization and Final Act and Related Documents*, p. 3. For documentation, see volume I.

2. Paragraph 1 of this Article shall not apply with respect to assets, and earnings therefrom, owned or beneficially owned by citizens of China who are nonresidents of China until after agreement between the Governments of the United States of America and China concerning the special problems affecting the property of such nonresidents which is situated within the United States of America, its territories or possessions.

3. The provisions of this Article, except to such extent as hereafter may be agreed between the two Governments, shall not be construed to impose any obligation on the Government of the United States of America to assist in the carrying out of the measures contemplated by paragraph 1.

Article VII—1. The provisions of this Article shall apply with respect to assistance which may be furnished by the Government of the United States of America on a grant basis pursuant to this Agreement.

2. The Government of China agrees to establish a special account in the Central Bank of China in the name of the Government of China (hereinafter called the Special Account) and to make deposits in Chinese currency to this account as follows:

(a) The unencumbered balance at the close of business on the day of the signature of this Agreement in the Special Account in the Central Bank of China in the name of the Government of China established pursuant to the Agreement between the Government of the United States of America and the Government of China made on October 27, 1947 and any further sums which may, from time to time, be required by such agreement to be deposited in the Special Account. It is understood that subsection (e) of Section 114 of the Foreign Assistance Act of 1948 constitutes the approval and determination of the Government of the United States of America with respect to the disposition of such balance, referred to in that agreement, and

(b) The unencumbered balances of the deposits made by the Government of China pursuant to the exchange of notes between the two Governments dated April 30, 1948.

(c) Amounts commensurate with the indicated dollar cost to the Government of the United States of America of commodities, services and technical information (including any costs of processing, storing, transporting, repairing or other services incident thereto) furnished to China on a grant basis pursuant to this Agreement, less, however, the amount of deposits made pursuant to the exchange of notes referred to in sub-paragraph (b). The Government of the United States of America shall from time to time notify the Government of China of the indicated dollar cost of commodities, services and technical information so furnished, and the Government of China will

deposit in the Special Account, at such times as may be specified by the Government of the United States of America, a commensurate amount of Chinese currency computed at a rate of exchange which shall be determined at the time of deposit by the Government of the United States of America in consultation with the Government of China. The Government of China may, upon the request of the Government of the United States of America, make advance deposits in the Special Account which shall be credited against subsequent notifications pursuant to this paragraph.

3. The Government of the United States of America will from time to time notify the Government of China of its requirements for administrative expenditures in Chinese currency incident to operations under the China Aid Act of 1948, and the Government of China will thereupon make such sums available out of any balances in the Special Account in the manner requested by the Government of the United States in the notification.

4. The Government of China undertakes further to make such sums of Chinese currency available out of any balances in the Special Account as may be required to cover:

(a) expenditures required to carry out the purposes of the Joint Commission on Rural Reconstruction in China as provided for in the Agreement of _____ between the Government of China and the Government of the United States of America; and

(b) costs (including port, storage, handling and similar charges) of transportation from any point of entry in China to the consignee's designated shipping point in China of such relief supplies and packages as are provided for in section 117(c) of the Foreign Assistance Act of 1948.

5. The Government of China shall dispose of any remaining balance in the Special Account only for such purposes as may be agreed from time to time with the Government of the United States of America, including in particular:

(a) sterilization as a measure of monetary and financial stabilization;

(b) expenditures incident to the stimulation of productive activity and the development of new sources of wealth, including materials which may be required in the United States of America because of deficiencies or potential deficiencies in the resources of the United States of America;

(c) expenditures upon projects or programs the external costs of which are being covered, in whole or in part, by assistance rendered by the Government of the United States of America, or by loans from the International Bank for Reconstruction and Development; or

(*d*) expenditures upon uncompleted relief or work relief projects undertaken pursuant to the agreement between the Governments of the United States of America and China of October 27, 1947.

6. The Government of China will maintain the value in terms of United States dollar equivalent of such amount of the Special Account as is (*a*) indicated by the Government of the United States of America as necessary for administrative expenditures referred to in paragraph 3 of this Article; (*b*) required for the purposes of paragraph 4 (*a*) of this Article; and (*c*) agreed between the two Governments to be necessary to defray the expenses in Chinese currency associated with reconstruction projects or programs, the external costs of which are met, in whole or in part, by assistance rendered by the Government of the United States of America pursuant to the Agreement.

7. Any unencumbered balance remaining in the Special Account on April 3, 1949 shall be disposed of within China for such purposes as may hereafter be agreed between the Governments of the United States of America and China, it being understood that the agreement of the United States of America shall be subject to approval by Act or joint resolution of the Congress of the United States of America.

Article VIII—[Provisions relating to exchange rates may be proposed by the Government of the United States at a later stage of the negotiations.]⁷¹

Article IX—1. The Government of China undertakes to facilitate the transfer to the United States of America, for stockpiling or other purposes, of materials which are required by the United States of America as a result of deficiencies or potential deficiencies in its own resources, upon such reasonable terms of sale, exchange, barter or otherwise, and in such quantities, and for such period of time, as may be agreed to between the Governments of the United States of America and China and after due regard for the reasonable requirements of China for domestic use and commercial export of such materials. The Government of China agrees to take such specific measures as may be necessary to effectuate the provisions of this paragraph, including the promotion of the increased production of such materials within China, and the removal of any hindrances to the transfer of such materials to the United States of America. The Government of China stands ready, upon the request of the Government of the United States of America, to enter into negotiations for detailed arrangements necessary to carry out the provisions of this paragraph.

2. The Government of China stands ready, upon the request of the Government of the United States of America, to enter into negotiations for such arrangements as are required to carry out the provisions of paragraph (9) of sub-Section 115(*b*) of the Foreign Assistance

⁷¹ Brackets appear in the original.

Act of 1948, which relates to the development and transfer of materials required by the United States of America.

3. The Government of China will, upon the request of the Government of the United States of America, use its good offices, wherever appropriate, to effectuate the purposes of paragraphs 1 and 2 of this Article in areas not within the jurisdiction of China.

Article X—The Government of China undertakes upon the request of the Government of the United States of America to enter into negotiations for agreements to facilitate the entry into China, including duty-free treatment, of supplies donated to or purchased by United States voluntary non-profit relief agencies and of relief packages originating in the United States and consigned to an individual residing in China.

Article XI—1. Each Government agrees, upon the request of the other Government, to consult regarding any matter relating to the application of this Agreement or to operations or arrangements carried out pursuant to this Agreement.

2. The Government of China undertakes to transmit to the Government of the United States of America, in such form and at such times as the latter may request but in no event less frequently than the end of each calendar quarter after the day of the signature of this Agreement, full statements of operations under this Agreement, including a statement on the use of funds, commodities, and services received thereunder. The Government of China also undertakes to make public in China, not less frequently than the end of each calendar quarter after the day of the signature of this Agreement, full statements of operations under this Agreement, including a report of the use of funds, commodities and services received pursuant to this Agreement.

3. The Government of China will assist the Government of the United States of America to obtain information relating to the materials referred to in Article IX which is necessary to the formulation and execution of the arrangements provided for in that Article.

4. The Government of China undertakes, upon request, to furnish the Government of the United States of America with such other information as may be relevant to the application and the carrying out of the provisions of this Agreement or as would be of assistance to the Government of the United States of America in appraising and determining the nature and scope of operations under the China Aid Act of 1948 or the use of assistance provided pursuant to this Agreement.

5. The Government of China affirms its intention to keep the people of China fully informed of the progress achieved by the Government

of China in implementing the undertakings contained in this Agreement designed to achieve more stable economic conditions in China, and it will keep the people of China continuously advised regarding the nature and extent of assistance furnished to them pursuant to this Agreement.

Article XII—1. The Government of the United States of America proposes to establish for China a Special Mission for Economic Aid which will discharge the responsibilities of the United States of America in China under this Agreement.

2. The Government of China agrees to grant to the personnel of the Special Mission the privileges and immunities necessary to its effective functioning.

3. The Government of China undertakes to extend to the Special Mission full cooperation, including the provision of information and facilities for observation and review necessary to the effective carrying out of this Agreement. Such cooperation shall also include the designation, upon the request of the Government of the United States of America, of a high-ranking official to represent the Government of China in its relations with the Government of the United States of America in respect of matters relating to this Agreement.

Article XIII—The Government of China undertakes, upon the request of the Government of the United States of America, to submit, jointly with the Government of the United States of America, for the decision of the International Court of Justice, or of such other arbitral tribunal as may be designated by special agreement between the two Governments, any claim espoused by the Government of the United States of America on behalf of a national of the United States of America against the Government of China for compensation or damage arising as a consequence of governmental measures affecting property or interests of such national, including rights arising as a consequence of contracts with, or concessions granted by, duly authorized authorities of the Government of China. It is understood that, in making its decision whether to espouse a claim, the Government of the United States of America will have due regard to the availability of remedies in the administrative or judicial tribunals of China and to whether such remedies have been exhausted.

Article XIV—1. This Agreement shall become effective on this day's date. It shall remain in force until June 30, 1950 or until 6 months after the day on which either Government shall have given the other notice of intention to terminate it, whichever is the later date. Subsidiary agreements and arrangements negotiated pursuant to this Agreement may remain in force beyond the date of termination of this Agreement and the period of effectiveness of such subsidiary agreements and arrangements shall be governed by the terms thereof.

2. This Agreement may be amended at any time by agreement between the two Governments.

3. A copy of this Agreement certified by the two Governments shall be deposited with the Secretary-General of the United Nations, who is authorized to effect registration thereof.

IN WITNESS WHEREOF the respective representatives, duly authorized for the purpose, have signed the present Agreement.

DONE at Nanking, in duplicate, in the English and Chinese languages, both texts authentic, this ————— day of June, 1948.

MARSHALL

893.50 Recovery/5-2948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 29, 1948—6 p. m.

814. Dept has pouched⁷² copies latest draft China agreement (ECA/China/2) for verification text Deptel 774, May 24. Also pouched⁷² copies Master Economic Cooperation Agreement for ERP countries (ECA/1), together with modifications (ECA/5) and analysis thereof (ECA/3 and 4), for background info Emb.

Chi Emb has been given copies China draft (ECA/China/2) and Master European draft on request. Dept and Emb should avoid catering Chinese desire identical treatment European ctrys. Defensive US position re China draft on grounds comparability Master European would undermine US position on Art IV re principles distribution. China draft should be interpreted, insofar as possible, on its own merits as necessary implementation of quite distinct Act. Actually, Chinese should be happy that certain rigid standards re financial stability and production goals in ERP not applied China. However, Dept believes question comparability China and Master draft will have to be met squarely and suggests Emb explain when appropriate, in following sense, which has been communicated, in general terms, to Chinese here :

China draft attempts maintain principles Title I of Act by applying provisions which logically fit Chinese situation as well as European and, for this purpose, language of certain European articles has been adopted almost verbatim. Other provisions Title I incorporated European draft have not been used China draft or have been applied in modified form. This explained in various instances either because radically different situation China (e. g., ECA/China/2, Article II re financial stability and certain aspects Art. VII re Special Account) or because technically inapplicable China (e. g., ECA/1 Articles

⁷² Instruction No. 97, May 27, not printed.

relating joint recovery program). Finally, China draft contains unique provisions dictated by Title IV (e. g. Art. III re commercial relations) or legislative history China Aid Act (e. g. Art. IV re distribution).

More detailed comments individual articles will be sent as soon as possible in separate telegram.⁷³

ECA/China/2 incorporates certain minor drafting changes indicated for master agreement in ECA/5. These changes should be made in text Deptel 774 May 24 as follows:

Article V, para 1 (a), last sentence, "adherence to" replaced by "compliance with".

Article VI, para 1, "are owned or beneficially owned by" replaced by "belong to".

Article VI, para 2, "owned or beneficially owned by" replaced by "which belong to".

Article VI, para 3, delete "except to such extent as hereafter may be agreed between the two Governments".

Article VII, para 1, insert "only" after "shall apply" and before "with respect to".

Article VII, para 2 (c), first sentence, "furnished" replaced by "made available" immediately preceding "to China on a grant basis". Second sentence, insert "any such" after "indicated dollar cost of" and immediately preceding "commodities, services", and delete "so furnished" immediately after "technical information".

Article X, insert "the provision of" after "including" and immediately preceding "duty-free treatment". Concluding phrase should read "and of relief packages originating in the United States of America and consigned to individuals residing in China".

Article XI, para 4, qualifying clause "upon request" changed to read "upon the request of the Government of the United States of America".

Article XIV, para 1, second sentence, insert "a date" after "or until" and immediately preceding "6 months after". Third sentence, concluding phrase changed to read "shall be governed by their own terms".

LOVETT

893.50 Recovery/5-2948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 29, 1948—6 p. m.

815. Following comments are made re those aspects draft China agreement (Deptel 774 May 24) which represent significant departure

⁷³ *Infra.*

from Master Agreement (ECA 1⁷⁴). ECA concurs present China draft and these comments. Articles indicated as "identical" follow master language with exception deletion references ERP, OEEC⁷⁵ or Economic Cooperation Act and substitution, where appropriate reference China situation or China Aid Act. For comment such articles Emb should refer analysis master (ECA/3 and 4) en route pouch as indicated Deptel 814.

Art I—(Assistance) Identical Master Art II.

Art II (*a*), (*b*) and (*d*) (General Undertakings)—Identical Master Art III.

Art II (*c*)—Differs significantly from Master Art III (*c*) in view inapplicability absolute standards of latter to Chinese fiscal situation. However believed language China draft sufficiently comprehensive and firm to cover points this field to be dealt with more specifically in corollary discussions.

Art III (Commercial Relations)—Not included Master draft but required for China by Sec 405 of Act. Dept still considering language Deptel 774 May 24 and would appreciate any Emb comment. Did misunderstanding re instruction Art III Deptel 773 May 24 result in presentation text this art to Chinese?

Art IV (Efficient Use Resources and Principles Distribution)—Para 1—identical Master Art IV. Para 2 and 3—Not included Master draft but necessary as leverage in obtaining and strengthening Chinese distribution controls for effective use aid goods. Dept believes language recommended Embtel 850 May 11⁷⁶ for this article, while appropriate limited relief program distributed by ChiGovt and voluntary agencies, unnecessary and undesirable this agreement, "direct supervision and control" places undue formal responsibility on US for program as large and complex as present aid and would probably be resented by ChiGovt because of extreme departure European agreements. Para 2 makes it possible go as far as practicable, as judged by mission during actual operations, in determination use goods by US. "Supervision" is implicit in proposed language, and US "control", in sense right suspend or curtail internal distribution commodities, can be made one of "terms and conditions" where desirable. Para 3 establishes high standard distribution for reference in application para 2. It can be used obtain ration and price control systems where practicable, but has advantage not specifying such systems all aid commodities in advance exploration their concrete possibilities.

Art V (Trade Policy)—Identical Master Art V.

⁷⁴ This and other ECA documents cited in this telegram not printed.

⁷⁵ Organization for European Economic Cooperation.

⁷⁶ Not printed; see footnote 52, p. 516.

Art VI (Assets in the US)—Identical Master Art VI. Dept and NAC recognize probable ineffectiveness this article (Embtel 850 May 11 ⁷⁷) but believe there is no adequate justification that can be made publicly for excepting China particularly in view para 3.

Art VII (Local Currency)—Emb will note significant variations from Master Art IX. However Dept and ECA awaiting final NAC comment and suggest Emb defer discussion this article with Chinese pending instructions anticipated shortly.

Art VIII (Exchange Rates)—Awaiting advice from NAC.

Art IX (Access to Materials)—Identical Master Art XI. Embtel 875, May 13 ⁷⁸ appreciated. Dept unable justify exception China this article. However suggest Emb defer its discussion with Chinese pending further study here re approach to be taken para 2.

Art X (Relief Supplies)—Identical Master Art XII para 2.

Art XI (Consultation, transmittal of Info and Publicity)—Para 1, 2, 3 and 4 identical Master Art XIII para 1, 3, 4 and 5. China para 5 unique but comparable Master Art XIV.

Art XII (Missions)—Identical Master Art XV.

Art XIII (Arbitration)—Identical Master Art XVI. There appear to be no special reasons make exception China this article (Embtel 850 May 11 ⁷⁹).

Art XIV (Entry into Force, Amendment, Duration)—Identical Master Art XVIII except for duration date. Note that second sentence para 1 makes possible extension duration agreement to allow sufficient time disburse funds obligated as of Apr 2, 1949 for capital goods reconstruction projects.

Master draft contains following articles not included China draft for reasons indicated below:

Art I (Objectives)—Unnecessary. Covered by China preamble to extent appropriate China situation.

Art VII (Guaranties)—Tentative Dept view is that guaranties for private investment (Sec 111(b) (3) of Act) inapplicable China in view requirement that guaranties be directly related sale of notes authorization (Sec 111(c) (2)) which is clearly intended ERP countries only. No ECA legal ruling yet made this point.

Art VIII (Projects)—Inapplicable China agreement in view char-

⁷⁷ Not printed; this telegram suggested the Department consider deleting article VI (893.50 Recovery/5-1148).

⁷⁸ Not printed; this telegram reported the Embassy's opinion that the Chinese would vigorously resist any proposal to negotiate on "access to, and national treatment for, US persons in development [of] strategic materials." (893.50-Recovery/5-1148)

⁷⁹ Not printed; this telegram recommended deletion of this article to simplify negotiations unless there were special reasons applying to China which made inclusion desirable (893.50 Recovery/5-1148).

acter and length China aid program. Need for info re reconstruction projects covered by China draft Art XI.

Art XII, para 1 (Travel Arrangements)—Inapplicable in view present political and transportation situation China.

Art XIV (Publicity)—Relates primarily to publicity among participating ctrys re ERP. Subject handled appropriately in China Art XI para 5.

Art XVII (Definitions)—Undesirable attempt define area China. Definition China Aid Act unnecessary since full title Act has been used thruout agreement.

LOVETT

893.50 Recovery/5-3148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 31, 1948—4 p. m.

[Received May 31—7:40 a. m.]

979. Continuing uncertainty composition Cabinet and Wong's⁸⁰ preoccupation with its creation has made impossible as yet any detailed corollary discussions with responsible officials along lines Deptel 738, May 15. At first opportunity such talks will be opened. However, during call on Generalissimo on May 22, just prior my departure for Taiwan, I left with him informal memorandum keyed to Chang Chun's 10 points and based largely on Deptel 738. Copy being air pouched to Department.⁸¹ This memo was briefly discussed and described by me as my jottings on directions and distance in which Chinese Government still had far to go in order to meet both its avowed intentions and the hopes of American people. It mentioned *inter alia* land reform, closure river ports, slowdown on cable negotiations, Civil Air Transport Agreement difficulties,⁸² and Central Bank circular 131.⁸³ Copies of this memo will be left with handful of key officials to provide uniform agenda for concurrent talks.

Meanwhile FonOff pressing us to open negotiations on bilateral which, one official states, after study of Department draft, appears to offer no serious difficulty. Embassy will continue delaying tactics at least for next few days to keep general pressure on and to afford opportunity launching corollary discussions envisaged. Embassy as-

⁸⁰ Wong Wen-hao's appointment as President of the Chinese Executive Yuan was approved by the Legislative Yuan on May 24.

⁸¹ See despatch No. 258, June 3, p. 537.

⁸² For correspondence on these difficulties, see pp. 775 ff.; for correspondence on negotiation of the agreement signed at Nanking, December 20, 1946, see *Foreign Relations*, 1946, vol. x, pp. 1228 ff.

⁸³ Published earlier in May; it required importers to deposit with the Central Bank 50% of the c. i. f. value of their imports when their import licenses were approved.

sumes Lapham will arrive briefed on substantive comments promised in Deptel 773, May 24.

STUART

893.50 Recovery/6-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 2, 1948—4 p. m.

[Received June 2—6:41 a. m.]

989. Clarification urgently desired regarding article VIII in draft China aid bilateral agreement with specific regard last sentence paragraph 2, Deptel 773, May 24, 8 p. m., instructing Embassy to delete that article and parenthetical note in text presented Chinese, with subsequent articles being renumbered accordingly.

Foregoing already done but Deptels 814 and 815, both May 29, 6 p. m., indicated Department continues consider Article VIII still in draft with remaining articles as originally numbered.

Re query in Deptel 815, May 29, 6 p. m., concerning text of article III, Embassy did make available to Chinese text this article. Embassy comment on this and other points raised two Deptels, May 29, will follow.⁸⁴

STUART

893.50 Recovery/6-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 2, 1948—2 p. m.

824. Dept requested Emb delete Art VIII and renumber subsequent articles in text presented Chinese (Embtel 989 June 2) because Dept, in consultation ECA and NAC, had not decided whether Art VIII should be included and did not wish reveal uncertainty to Chinese. However, in view probability inclusion this article, Dept believed subsequent telegraphic references draft agreement would be facilitated if text Deptel 774, May 24 retained Art VIII and remaining articles numbered correspondingly. Dept still awaiting final NAC comment Art VIII.

LOVETT

893.50 Recovery/6-348

The Ambassador in China (Stuart) to the Secretary of State

No. 258

NANKING, June 3, 1948.

[Received June 14.]

The Ambassador has the honor to refer to the Embassy's telegram No. 979 of May 31, 4:00 p. m. and in connection therewith to enclose

⁸⁴ Comment not found in Department files.

a copy of the memorandum which, in Chinese translation, was handed to President Chiang Kai-shek by the Ambassador in their conversation of May 22. It was not described as an official document but was represented as the Ambassador's informal effort to reflect his own and the Department's thinking in connection with the broad areas within which much in the way of basic reform still had to be done. The President gave no indication of his immediate reaction to the paper.

It will be noted that the memorandum draws heavily on the views contained in the Department's telegram No. 738 of May 15, 1:00 p. m. but that by subject matter it is rearranged to conform to the ten points of Premier Chang Chun's statement of January 28, 1948.⁸⁵ This same memorandum will be used discreetly as a basis for discussion with the new Prime Minister, the new Minister of Foreign Affairs,⁸⁶ the new Minister of Finance,⁸⁷ O. K. Yui,⁸⁸ Chang Kai-ngau and others with whom officials of the Embassy will be holding informal discussions on this general subject.

[Enclosure]

The American Ambassador in China (Stuart) to President Chiang Kai-shek

[NANKING, May 22, 1948.]

The American people noted with deep interest the statement issued on January 28, 1948 by the President of the Executive Yuan which comprised ten financial and economic reform measures which the Chinese Government intended to undertake. The United States Government, including the Congress during its debate of the Aid to China Act, accepted this statement as a program which the Chinese Government would vigorously pursue in order to insure by its own actions that financial assistance from the United States Government would provide the maximum results for the Chinese people.

The Premier's statement represented a coherent and promising framework for individual measures and actions of the Chinese Government. A number of measures in execution of this program have been taken with respect to these objectives but they have often appeared as isolated acts, unnoted and even unrelated to the program as a whole. And in some important areas it has seemed that no appre-

⁸⁵ For text of note from the Chinese Embassy, see p. 462.

⁸⁶ Wang Shih-chieh remained as Foreign Minister in the Wong Wen-hao Cabinet.

⁸⁷ Wang Yun-wu.

⁸⁸ Mr. Yui succeeded Chang Kai-ngau as Governor of the Central Bank of China on May 21, 1948.

chable progress can be measured in the past four months. Some of these areas, apparently vacant insofar as effective action and visible results are concerned, are noted below. The numbering of the paragraphs below follows the numbering of the Premier's ten points.

1. On control of Government expenditures, even granting all the difficulties, little seems to have been accomplished. The first steps would appear to be to establish standardized accounting with firm budgetary controls in the hands of a central fiscal authority possessing the power to determine allocations for all expenditures whether military or civil. Needless to say, this authority would require the unremitting personal support of the President. Another step would be the ruthless elimination of all non-productive expenditures. In both the civilian and military establishments there would appear to be room for the removal of duplicatory or unnecessary services and individuals.

2. With respect to securing an increase in tax yields and distributing the tax burden more equitably, it is recognized that the severity of the inflation of the currency accentuates the Government's difficulties. It is a truism, however, that public confidence in the currency can only be recaptured if a drastic reduction in curtailable expenses is accompanied by a massive increase in tax collections. Even to the casual observer the administration of existing tax collection measures can be greatly improved. It is my impression, for instance, that urban real estate taxes are low compared to tax rates in the country districts. Increased reliance on ad valorem taxes and taxes collected at the source should help to compensate for loss of real revenues due to currency depreciation. The projected sale of certain Government assets is surely another step in the right direction which could be effectively followed by further acts of the same sort.

3. Although superficially increases in wages of civil servants and soldiers will add to the budgetary difficulty, it would seem essential that equitable adjustments must be made if loyalty and efficiency are to be retained. The weeding out of unnecessary personnel should be tied directly to the program of upward salary adjustments.

4. The rice and flour rationing program seems by general agreement to have been a substantial success, particularly in Shanghai, Canton, Peiping and Tientsin, and to lesser degree in Nanking. It would seem that this experience urgently justifies increasing the number of urban centers in which a rationing system is installed and, equally important, increasing the number of commodities covered. I have particularly in mind the addition of edible oils, cotton cloth, kerosene and automotive gasoline. Accompanying this would be the institution of practical measures to get commodities such as kerosene and cotton yarn flowing into the agricultural areas to provide the incentive for increased production and collection of foodstuffs.

5. It would appear that the fifth objective of the Prime Minister can only approach achievement if reduction of expenditures and increase in tax collections are vigorously and successfully pursued as a first step.

6. It would seem that the Central Bank has made some progress in its efforts to check speculation and pursue a deflationary credit policy. Loopholes, however, obviously continue to exist through which capital finds refuge in foreign currency and transfers abroad. The loss, both of Government customs revenues and foreign exchange, appears to be substantial in the two-way smuggling operations which by common report are widespread. The intensification of the present campaign against smuggling would yield returns to the Government on both scores. The Maritime Customs will need support and re-equipping to play their part.

7. Internal measures can reduce Chinese dependence upon the large imports now needed but only if such measures are accompanied by successful efforts to increase exports from China can the foreign exchange crisis be surmounted. There are many measures which the business community has repeatedly pointed out would contribute to an increase in exports. One such measure would be the directing of incentive goods referred to above into the interior areas of production. Another would be the establishment of realistic exchange rates for foreign currencies. Another would be the reduction in red tape now involved in arranging exports. Finally, the Government could do much by concentrating its encouragements on exporting industries which could increase their exportable surplus if for example, they were given priorities for securing spare parts and raw materials which must be imported.

8. On import controls, a clear policy of encouraging private enterprise by simplification of procedures would seem to promise the best results. Such acts as the recent issuance of regulation No. 131 by the Central Bank should be considered in these terms in advance of promulgation. The result of this particular regulation has been to bring the import trade to a complete stand-still and to deepen the already deep discouragement.

9. The recommendations of the joint Sino-American Agricultural Mission, many of which have been only partially acted upon, seem to provide a comprehensive framework for action in this important field. If there is any single area where reform in deeds and not words is most necessary and most sought by the people, it is land reform. The Land Law of April 29, 1946 contains a carefully considered program

regarding limitations on land ownership, land redistribution, and of utmost importance, control and reduction of rents and taxes. Subsequent regulations dealing with particular aspects of land reform have been contained in such measures as the Principles Governing the Administration of Areas Aimed at Achieving Social Stability and Relieving the People, passed by the Supreme National Defense Council on October 23, 1946 and the "Measures for Disposition of Land Ownership in Pacification Areas", promulgated by the Executive Yuan on October 26, 1946. One hears on all sides that reforms have not yet been carried out, and the special investigators of the Executive Yuan have reported on various occasions regarding the nonimplementation of these measures. Carefully prepared measures extending land reform to wider areas were strongly recommended by the Ministry of Land Administration to the Conference of Pacification Areas Commanders held in Nanking in March 1948. Successful policies which have related land and agrarian reform to the problem of defense seem to have been applied in the 10th Administrative Area of Hopei Province, which might merit extension to other areas.

10. Under the difficulties imposed by internal strife and shortage of materials, the restoration of the Chinese railroads has been inspiring. In the broad field of communications and reconstruction of industry important steps have been achieved. There are some related areas where it would seem China's self-interest would dictate action. For example, the closure of the River ports to foreign flag ocean shipping is contrary to the policy of great nations. This situation damages China's own interests in that transportation costs are heavily increased on American Aid oil shipments to Hankow, to take one case. The delay in reaching agreement in the long drawn out negotiations on the restoration of pre-war cable facilities is another case in point. Meanwhile certain difficulties which have arisen in connection with the Sino-U. S. Bilateral Air Transport Agreement remain unresolved.

In conclusion, the Premier's statement seems as cogent and comprehensive today as on the date when it was issued. There would seem to be nothing to add to this statement of objectives but there would seem much still to be done in attaining them. China does not seek a subsidy but it has looked to the United States for help in this difficult period in order that it might the better help itself. It was in this spirit that the United States Government has responded and it is in these terms that the American people and the American Congress in the coming months will follow with acute interest the progress that the Chinese Government makes in solving the broad and pressing problems of economic and financial reform.

840.50 Recovery/6-548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1948—10 a. m.

[Received June 5—4:17 a. m.]

1010. First discussion on draft of master bilateral aid agreement (reDeptels 773 and 774, May 24) held at Foreign Office June 4 between Embassy officers (Merchant⁸⁹ and Boehringer⁹⁰) and Dr. Tung Ling, director American Affairs Department, and two associates. Tung presented *aide-mémoire* containing following changes in draft proposed by Foreign Office:

1. Preamble. First and second paragraphs redrafted as follows:

"The Government of the Republic of China and the Government of the United States of America:

"Considering that it is the desire of the people of the United States of America to extend assistance to the people of China as provided in the China Aid Act of 1948: and"

Foregoing followed by last paragraph without change.

2. Article II. First line: Substitute "undertakes" by "affirms its intention".

3. Article III deleted with substance this article incorporated into paragraph *d* of article II which would then read: "To improve commercial relations with other countries and to cooperate with other countries in facilitating and stimulating an increasing interchange of goods and services with other countries and in reducing public and private barriers to trade with other countries."

4. Article V, paragraph 1: Subparagraph *a* redrafted as follows: "The United States of America and China shall each accord to the commerce of the other immediately and unconditionally treatment no less favorable than that accorded to the commerce of any third country provided that departures from the application of such Most-Favored-Nation treatment shall be permitted to the extent that they are in accord with the exceptions recognized in the General Agreement on Tariffs and Trade adopted on October 30, 1947 by the Preparatory Committee of the United Nations Conference on Trade and Employment at Geneva. The provisions of this subparagraph shall not be construed to require adherence to the procedures specified in the general agreement with regard to the exceptions of Most-Favored-Nation treatment."

5. Article V, paragraph 1: Delete subparagraph *b*.

6. Article VI, paragraph 3 redrafted as follows:

"The Government of the United States of America shall assist the

⁸⁹ Livingston T. Merchant, Counselor of Embassy in China.

⁹⁰ Carl H. Boehringer, First Secretary of Embassy in China.

Government of China in the carrying out of the measures contemplated by paragraph 1 to such extent as hereafter may be agreed upon between the two governments."

7. Article VII, paragraph 2: Second sentence of subparagraph c changed to read:

"The Government of the United States of America shall from time to time notify the Government of China of the indicated dollar cost of commodities, services and technical information so furnished and the Government of China will deposit in the special account at such times as may be specified by the Government of the United States of America commensurate amounts of Chinese currency computed at a rate of exchange to be agreed upon between the Govt of China and the Govt of the United States of America."

8. Article XIII to be deleted.

Embassy comment on foregoing proposals follows.⁹¹

Sent Department, repeated Shanghai as 450.

STUART

893.50 Recovery/6-548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1948—2 p. m.

[Received June 5—8:34 a. m.]

1015. For Department and ECA. Re Embtel 1010, June 5, containing Chinese proposal for revisions of draft bilateral aid agreement. Meeting conducted in friendly atmosphere with Tung Ling expressing opinion that general language of draft agreement acceptable to Foreign Office. He indicated desire have negotiations proceed as rapidly as possible in order to get approval of Legislative Yuan prior to June 30 when that organ scheduled to end session. Herewith comments on proposals given numbered paragraphs reference telegram which Embassy officers said would be sent Department with Embassy's comments:

1. Preamble. Tung said Foreign Office objected to quoting section 402 of China Aid Act *in toto* on grounds that unilateral statements of policies and objectives contained therein not in accord with spirit of bilateral agreement. Embassy officers held out little hope that Department would agree to drop quotation, but offered suggest to Department on Chinese behalf that point be covered in agreement by specific reference to section 402 in revised version of preamble.

2. We oppose suggested change.

3. Embassy does not recommend approval suggested deletion article

⁹¹ *Infra.*

III as revised paragraph *d* of article II too general and vague. Suggest question article III be held open until Department and ECA in position submit concrete proposals.

4. Suggestion revision subparagraph *a*, article V, paragraph 1, explained by Tung as reasonable in view fact China and US have both signed protocol to GATT whereas ITO charter unsigned. Statement made relevant provisions ITO charter and GATT are identical. Embassy officers expressed sympathy for this viewpoint, but stated question of revision would have to be referred to Department.

5. Tung explained Foreign Office position re suggested deletion paragraph *b*, article V, by stating that question of trade other than Sino-US appeared to be subject to special agreements which had no place in bilateral agreement this type. Objection also made to Chinese giving MFN treatment to Japan and Korea. He also alluded to present Chinese sensitiveness with regard US policies with respect to Japan as being important consideration in this regard. Embassy officers took no position beyond stating that this paragraph appeared in agreement being negotiated with European countries.

6. Tung said Foreign Office objected to omission phrase "except to such extent as hereafter may be agreed between the two Governments", adding that proposed revision paragraph 3, article VI, drawn up to put provision in positive rather than negative language. Tung stated further that the Chinese Government could not expect to do much in the way of locating, identifying and putting into appropriate use Chinese assets in US unless US Government cooperated. Unless Department perceives objection, we believe Chinese objective would be reached by replacing above cited phrase into draft.

7. Suggested revision second sentence, subparagraph *c*, paragraph 2 of article VII retains original language this article given in first draft of agreement made available to Foreign Office but with substitution of phrase "which shall be determined at time of deposit by the Government of the US of A in consultation with the Government of China" by the phrase "computed at a rate of exchange to be agreed upon between the Government of China and the Government of the US of A.[""] Tung stated that proposed unilateral action by US unpalatable to Chinese and would probably give rise to criticism by Legislative Yuan. He recommended for our consideration as alternative inclusion provision for determining rate of exchange patterned after provision contained in last two sentences first paragraph, article XII of agreement signed Nanking November 10, 1947,⁹² entitled "agreement between the Government of US of A and the Govern-

⁹²Treaties and Other International Acts Series No. 1687, or 61 Stat. (pt. 4) 3582. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1947, vol. VII, pp. 1263 ff.

ment of the Republic of China for use of funds made available in accordance with article VI b (1) of the Surplus Property Sales Agreement of August 30, 1946".⁹³ Embassy believes this provision cumbersome and otherwise undesirable. Embassy recommends acceptance Chinese specific language contained reference telegram since Department phrase "in consultation with" presumably implies reaching agreement as result of such consultation.

8. Tung stated suggested deletion article XIII based upon machinery, existing or projected, for arbitrating matters of type envisaged here. Embassy recommends deletion.

Sent Department 1015, repeated Shanghai 452.

STUART

893.50 Recovery/6-548: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 9, 1948—6 p. m.

861. Following comments re Embtels 1010 and 1015, June 5 with numbered paragraphs corresponding:

1. Preamble. Highly desirable that full text Sec. 402 be used. Request Embassy attempt persuade FonMin accept present draft and report again on strength Chinese objection before forcing issue.

2. Article II. Dept agrees Embassy.

3. Article III. Dept believes separate Art. necessary this subject but further comments must be deferred for time being. Request Embassy so indicate to FonMin and state that presentation text Art. III to Chinese was premature and should not be regarded as firm proposal.

4. Article V, Para. 1 (a). FonOff suggestion has merit, but Embassy should defer comment pending further instructions since paragraph 1 (a) being reconsidered here.

5. Article V, Para. 1 (b). MFN treatment for occupied areas must be negotiated all agreements. For your info, language paragraph 1 (b) may be changed as result reconsideration paragraph 1 (a).

6. Article VI, Para. 3. Chinese redraft unacceptable. Previous deletion "except to such extent as hereafter may be agreed by the two governments" was made in consultation with Treasury for all agreements because it implied possibility US assistance mobilization assets. This particularly undesirable in case Chinese assets which are unblocked whereas numerous European assets remain blocked.

7. Article VII, Para. 2 (c). FonOff revision acceptable. Order

⁹³ Signed at Shanghai; Department of State, *Report to Congress on Foreign Surplus Disposal*, October, 1946, pp. 40-45. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

of reference Govts in last phrase second sentence should be reversed for English text. Dept assumes that last sentence paragraph 2 (c) remains as drafted.

8. Article XIII. Dept not clear what "machinery, existing or projected," FonOff has in mind. In any case, Dept unable approve recommendation deletion Article XIII in view statutory mandate, Sec. 115 (b) (10) of Title I.

MARSHALL

Nanking Embassy Files, Lot F79—800 China Aid : Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, June 11, 1948—2 p. m.

[Received June 12—9 a. m.]

TOECA ⁹⁴ 31. For Hoffman ⁹⁵ and Moore ⁹⁶ from Lapham. Have been reviewing since my arrival here the major policy questions involved in the successful inauguration and implementation of CAP.⁹⁷ It seems to me that in this connection a point of real substance is involved in the wording of article IV of the bilateral agreement as proposed by Washington contrary to the recommendations of the Embassy and CRM here. Your reference invited in this connection to Deptels 773 and 774 of May 24 and 815 of May 29. The latter in turn refers to Nanking tels to Washington 846 and 850 of May 11.⁹⁸

2. The main issue involved, as developed in conversations here since my arrival, is conviction among those who have had continuity and, above all, recent experience in observing or cooperating with local economic operations in China that a more definite understanding must be officially reached with Chinese as to extent of supervision and control over US supplies which will be exercised by ECA field mission. Specifically, opinion expressed in Deptel 875 [815] May 29 that language originally recommended by Embassy for article IV as "unnecessary and undesirable" in bilateral agreement runs directly counter to what I know to be unanimously held opinions on distribution controls in the field. I feel that those out here have developed their thinking on basis of practical experience and that we should heed their advice, especially since Chinese by their actions appear to welcome a considerable degree of supervision and control by US representatives in the handling of American aid. Further, I am per-

⁹⁴ Symbol used to identify messages sent by ECA missions in the field to the ECA in Washington.

⁹⁵ Paul G. Hoffman, Administrator of the ECA.

⁹⁷ China Aid Program.

⁹⁸ Latter not printed.

suaded that responsibilities of ECA as an administering agency will not be sufficiently protected under the wording of article IV as presently submitted from Washington. If this wording is adhered to, a real outcry can be expected from the American community and other observers here that US Govt has again ignored the lessons of the past and has refused to insist upon teeth in a control arrangement where need for control is greater than ever before. The blame for this will primarily fall on ECA, who will be charged with an unbusinesslike approach when a businesslike approach was anticipated and expected.

3. Urge you give utmost consideration to views expressed above, communicating my concern to State Dept, and attempting to secure agreement of latter to strengthening draft of bilateral agreement along following lines: Article IV, para 2 should be changed to read "all expendable commodities (such as food, cotton, petroleum, fertilizer, tobacco), supplied by the US of America shall be distributed by the Chinese Govt or through private agencies and commercial business channels as agreed upon between the two Govts. Representatives of the United States of America may exercise direct supervision and control of such supplies made available by the US Govt under this agreement." Similarly article IV, section 3 "the Govt of China, in consultation with representatives of the US of America, will take all appropriate steps designed to achieve fair and equitable distribution within the areas under its control of commodities provided by the Govt of the US of America pursuant to this agreement and of similar commodities imported into China and other kinds produced locally. A distribution and price control system shall be inaugurated or maintained in such urban centers of China as circumstances and supply availabilities permit with the intent of insuring that all classes of the population shall receive a fair share of the imported or indigenously produced essential civilian supplies. In permitting US expendable commodities made available under this agreement to be utilized in support of the Chinese efforts to improve consumption and price controls, it is understood that the US Govt takes no responsibility for the success of these urban programs." Finally, add a section 4 to the article reading as follows: "The prices at which supplies furnished by the United States of America under this agreement will be sold in China shall be agreed upon between the Chinese Govt and the US Govt. The overriding price policy consideration shall be the establishment of realistic prices on commodities supplied under this agreement, as a means of combatting inflation and balancing the internal budget".

4. The revised wording suggested above, it will be noted, follows as closely as possible the text of the relief agreement executed October

27, 1947. It is felt here that the presentation of such revisions at this time will be more acceptable in the last analysis to Chinese since the text of a previously approved agreement is being followed rather than an application of terms and conditions which might more exactly fit the present situation.

5. Merchant has seen this telegram and agrees in principle but reserves possible Embassy comment regarding practical and political wisdom revising draft this late date. [Lapham.]

PILCHER

893.50 Recovery/6-1148 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 11, 1948—7 p. m.

873. Following changes should be made in draft China bilateral, Deptel 774, May 24:

1. Art. IX, para 2, first two phrases to read "the Govt of China agrees to negotiate, upon the request of the Govt of the US of America," and delete "to enter into negotiations for" immediately following. This amendment designed overcome objections of Agent-General⁹⁹ of Joint Congressional Committee that existing text may not fully meet requirements of Act.

2. Art. XII, para 2 revised to read as follows "The Govt of China agrees to consider the Special Mission and its personnel as a part of the Embassy of the US of America in China for the purpose of enjoying the privileges and immunities accorded to the Embassy of the US of America and its personnel in China. The Govt of China further agrees to grant to the members and staff of the Joint Committee on Foreign Economic Cooperation of the Congress of the US of America the privileges and immunities necessary to the effective performance of their responsibilities under the Act."

3. Art. XII, para 3 revised to read as follows "The Govt of China undertakes to extend full cooperation to the Special Mission, and to the members and staff of the Joint Committee. Such cooperation shall include the provision of information and facilities, including freedom of movement of personnel within China, necessary to the observation and review of the use of assistance furnished pursuant to this Agreement, or otherwise necessary to the effective carrying out of this Agreement. Such cooperation shall also include the designation, upon the request of the Govt of the US of America, of a high-ranking official to represent the Govt of China in its relations with the Govt of the US of America in respect of matters relating to this Agreement."

⁹⁹ Charles S. Dewey, Agent-General of the Joint Committee on Foreign Economic Cooperation.

4. Art. XIV, para 1, second sentence revised to read as follows "It shall remain in force until June 30, 1950, and, unless at least six months before June 30, 1950, either govt shall have given notice in writing to the other of intention to terminate the Agreement on that date, it shall remain in force thereafter until the expiration of 6 months from the date on which such notice shall have been given."

5. Art. XIV, para 3 revised to read as follows "This Agreement shall be registered with the Secretary-General of the United Nations." This change made to eliminate necessity of time-consuming certification by two govts. It is contemplated that Dept would deposit copies English and Chinese texts with UN.

MARSHALL

840.50 Recovery/6-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1948—1 p. m.

[Received June 12—9:03 a. m.]

1074. With respect to Lapham's telegram to Hoffman and Moore sent from Shanghai June 11 (number unknown¹) recommending certain changes in draft bilateral foreign aid program, Embassy fully concurs and recommends strong effort to employ language proposed. If Chinese resistance too strong, particular in view lateness of its introduction, then at least we could endeavor obtain Chinese oral agreement on these points.

Sent Department as 1074, repeated Shanghai 478.

STUART

840.50 Recovery/6-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 14, 1948—6 p. m.

[Received June 15—3:44 a. m.]

1082. For State and ECA. Department's comments on Chinese proposals for revisions in master bilateral aid agreement (reDeptel 861, June 9, 6 p. m.) made available June 12 to Foreign Office which June 14 made following comments in *aide-mémoire* handed Embassy officer. Numbered paragraphs refer identical subjects reported Embtels 1010 and 1015 June 5 and reftel:

1. Re first and second paragraphs of preamble, Foreign Office "feels that it must urge the acceptance of its original suggestion. While Chinese Government fully appreciates motive of China Aid Act,

¹ See telegram No. TOECA 31, p. 546.

insertion of full text of section 402 of the Act in an international agreement may not be appropriate”;

2. “In deference to wishes of State Department”, Foreign Office agrees to retention of word “undertakes” in article II;

3. Foreign Office will defer its comments on article III until it hears further from Embassy;

4. Foreign Office notes with satisfaction that suggested redrafting subparagraph (a) of paragraph 1, article V, is under consideration by Department;

5. Re suggested deletion subparagraph (b) of paragraph 1, article V, Foreign Office “wishes to stress again that commercial relations with areas now occupied by US Forces should constitute a subject of discussion at Allied Conferences and should not form part of proposed bilateral agreement. Furthermore, neither Japan nor Southern Korea included in ‘participating countries’ named in Economic Cooperation Act of 1948”;

6. Re suggested redrafting paragraph 3, article VI, Foreign Office, “realizing difficulties that the US Government may encounter in making any commitment in the matter, will not insist on acceptance of its proposal for revision. It is evident, however, that no action taken by Chinese Government can be effective without assistance from US Government. Insertion of article VI as drafted by the State Department will merely raise false hopes and eventual dissatisfaction on the part of Chinese public. Ministry (i. e., Foreign Office) would therefore ask State Department to consider deletion of said article”;

7. Re exchange rate referred to in article VIII, Foreign Office suggests that similar provisions in Sino-American Agreement on US Educational Foundation in China² be adopted in bilateral agreement.

8. While Foreign Office has no intention of insisting on deletion of article XIII, it is of opinion that article is superfluous, there being provision for settlement as by arbitration in article VI of Sino-American Treaty of Friendship, Commerce and Navigation dated November 4, 1946.

Embassy comments follow in subsequent telegram.³

STUART

S93.50 Recovery/6-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 15, 1948—11 a. m.

[Received June 15—3: 53 a. m.]

1084. To Dept. and ECA. Herewith Embassy comments on points raised by Foreign Office in June 14 *aide-mémoire* (reEmbtel 1082, June 14, 6 p. m.) reference made to same numbered paragraphs:

² Signed at Nanking, November 10, 1947; Treaties and Other International Acts Series No. 1687, or 61 Stat. (pt. 4) 3582.

³ *Infra*.

1. Tung Ling, director, American Affairs Dept, Foreign Office, stated to Embassy officer that Foreign Office position re first and second paragraphs of preamble reflected views of Foreign Minister. Tung questioned whether similar requirement would be insisted upon by US Govt on agreements concluded with European countries. Question of face appears paramount, possibly coupled with fear of local criticism involving charges Foreign Office being forced conclude agreement not strictly bilateral in nature. We believe Chinese object[ion] strong but not adamant. Should Dept and ECA consider forcing issue, we suggest careful consideration be given to question of Chinese sensibilities and possible desirability of insisting upon Chinese acceptance of more important and substantive provisions of agreement.

2, 3 and 4. No special comment required.

5. Tung emphasized Foreign Office concern over suggested deletion, stating that it would be "almost impossible" for Chinese Govt to accept original wording this subparagraph and that Chinese Govt would undoubtedly be attacked by its local critics for signing any agreement at this time giving MFN treatment to Japan and to lesser extent in Southern Korea. Tung spoke at length on this point, adding that even if subparagraph reworded but with substance unchanged it would be most difficult for Foreign Office to obtain approval of agreement by Legislative Yuan. In view Department statement to effect language this subparagraph may be changed, Embassy reserves recommendations. In this connection current anti-US student campaign on subject US policy towards Japan should not be overlooked.

6. While Foreign Office drops its proposal for revision paragraph 3, article VI, it now suggests deletion entire article, Tung stating this suggestion made specifically at instance Foreign Minister who assertedly convinced nothing can be done by Chinese Govt except with assistance US Govt. As ECA position re insertion article VI presumably not subject to change, we suggest that article stand in draft as originally reported Deptel 774, May 24 and revised Deptel 814, May 29, 6 p. m.

7. Dept will note that previous Foreign Office proposal for provisions relating to exchange rates reported Embtels 1010 and 1015, June 5, in connection with article VII whereas now connected by Chinese with article VIII. Tung stated that provisions in cited agreement appeared workable, mutually satisfactory and subject to renegotiation if necessary. Embassy not informed of Department's plans re article VIII. Re last sentence paragraph 2 (c), article VII, Department's assumption correct.

8. As Foreign Office has no intention of insisting on deletion article XIII, Embassy recommends taking Foreign Office at its word especially as treaty not yet in force.

840.50 Recovery/6-1248: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1948—8 p. m.

892. [For] Lapham from ECA. Dept and ECA have been in full agreement necessity greatest practicable detailed supervision and control by Mission of utilization aid goods in China (TOECA 31, June 11 and Embtel 1074 June 12). Art. IV was drafted with a view to ensuring such role for ECA Mission and designed give widest discretion Mission in this regard without specifying conditions which cannot be fully determined in advance. Language employed believed appropriate bilateral agreement this character, in particular avoiding such a phrase as "direct supervision and control" which, in context Embtel 850, May 11,⁴ implied that US Govt itself would be fully responsible for distribution goods (Deptel 815, May 29.)

However, in circumstances Dept is quite prepared to accept Mr. Lapham's recommendations as proposed TOECA 31, June 11. ECA also agreeable subject its comments below to which Dept interposes no objection.

Recent hearings⁵ before appropriation committees have served to re-emphasize ECA's responsibility for strict supervision of distribution and end use of all supplies financed by ECA. Bilateral agreement is of course only one step in control; even more important steps will be setting up of systems for joint review and control of each stage of use of American aid supplies, and the system of inspection and follow through by representatives of Mission.

ECA makes following suggestions re language proposed TOECA 31:

1. Art. IV, para 2—Original draft intended [to] subject price policies and processing (in terms physical alteration goods) as well as distribution channels of all aid goods to joint control Mission and Chinese Government. Language TOECA 31 appears to limit US control to expendable commodities, and thus fails to provide that there will be any joint agreement or distribution supervision in regard to replacement parts for existing capital equipment. Language suggested also limits US concern to distribution and does not include processing. Suggest more comprehensive wording would be preferable, substantially as follows:

"All commodities provided by Govt of USA pursuant this Agreement shall be processed and distributed by commercial enterprises or by private or ChiGovt agencies, and in accordance with terms and con-

⁴ Not printed.

⁵ See *Foreign Aid Appropriation Bill for 1949: Hearings before the Sub-Committee of the House Committee on Appropriations, 80th Cong., 2d sess.*, and *Economic Cooperation Administration: Hearings before the Senate Committee on Appropriations, 80th Cong., 2d sess.*

ditions, agreed upon from time to time between Govt of USA and the Govt of China. Representatives of the Govt of USA may exercise direct supervision and control over processing and distribution of such commodities."

2. Art. IV, para 3—Last clause first sentence appears garbled. Dept assumes it is intended to be identical original draft which reads "and of similar commodities imported into China with other funds or produced locally." This sentence ok.

3. Art IV para 3. Second sentence in present form raises several difficult questions. First we question whether this point is necessary in view of more general coverage in your revision Article IV para 2. Secondly, as worded, your sentence about distribution and price control system in urban centers seems to put the accent on programs for benefit of urban consumers who will be important but not sole users of ECA supplies. Implication of sentence is, for example, that kerosene, textiles, and other supplies which probably should be distributed partly or primarily in rural areas would nevertheless be handled only through distribution and price control system in urban centers. Suggest you reconsider second and third sentences in your draft of para 3. If you feel it imperative they should go in, suggest they be made separate paragraph, and that second sentence be revised to read as follows: "To the extent that circumstances and supply availabilities permit, a distribution and price control system shall be inaugurated or maintained in urban centers of China with the intent of insuring that all classes of the population shall receive a fair share of imported or indigenously produced essential civilian supplies."

4. If you decide second sentence para 3 should be eliminated, third sentence might be deleted, or revised to read "In permitting US commodities made available under this agreement to be utilized in support of Chinese programs to improve consumption and price controls, it is understood that the US Govt takes no responsibility for the success of such programs."

5. Art IV para 4 first sentence in original draft, term "price policies" was used advisedly rather than "prices" because of doubt that Mission could attempt detailed task indicate exact prices of all grades and qualities of all goods at each processing and sales level. Therefore, suggest this sentence be revised to read as follows: "The price policies to be followed for the sale within China of each commodity provided by the Govt of USA pursuant to this Agreement shall be agreed upon between the Govt of USA and the Govt of China."

6. Art IV para 4 second sentence. Object to inclusion second sentence in bilateral agreement for two reasons. (a) In practice, price policy will probably vary somewhat by commodities. This sentence

seems to tie our hands to a price policy which, while probably generally correct, might not apply to all commodities for both urban and rural distribution. Believe this is question of specific policy for joint determination by two governments under agreement, and therefore unnecessary attempt formulate generalized price policy applicable all commodities. (b) Regarding substance of sentence we question advisability of any reference to "balancing internal budget" since sales proceeds of aid goods cannot be expected to approach this goal even on assumption large portion of special account funds are withheld from use. (Maximization Government receipts from sales of aid goods should, however, be of considerable importance as offset to Government spending.) It is inevitable that two different policies will need to be considered in each price determination—on one hand to favor highest prices obtainable in order to maximize government receipts, and on other hand to consider possibility setting prices below free market level in order to facilitate distribution aid goods to all classes irrespective purchasing power and retard rate of general price increase, as under CRM Program. Seems unwise to rule in advance that either one of these considerations should be over-riding in all cases. [ECA.]

MARSHALL

893.50 Recovery/6-1948: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 19, 1948—10 a. m.

900. National Advisory Council on June 3 approved financial provisions draft bilateral agreement with China (Deptel 774 May 24) recognizing necessity for some modifications in the provisions for China as against those previously approved for ERP countries. NAC had also previously approved Art VI (Assets in US) identical with provision for ERP countries.

NAC approved version of Art VII substantially identical with draft already transmitted reftel. Changes in Art VII transmitted Deptel 814 May 29 not considered warrant NAC approval. Following changes appear in NAC-approved draft: In para 2 (a), first sentence, replace "the" by "that" immediately preceding "special account" at end of sentence. In para 2 (c), last sentence replace "may" by "will" immediately after "Government of China". In para 6 change "paragraph 4a" to "paragraph 4".

Principal change in Art VII suggested by NAC is in para 5. NAC proposes deletion para 5a and suggests introductory sentence beginning "The Government of China" and ending "including in particular" be changed to read as follows:

"The Government of China shall hold the remaining balance in the Special Account as a measure of monetary and financial stabilization, or shall dispose of it only for such purposes as may be agreed from time to time with the Government of the United States of America, including in particular:"

This language suggested to emphasize desirability limiting disbursements from Special Account and thus minimizing inflationary potential of local currency funds. This change not yet accepted by ECA

Para 6 of Art VII also changed by addition of following sentence "The Government of China will carry out this provision by depositing such additional amounts of Chinese currency as the Government of the United States of America may from time to time determine after consultation with the Government of China."

Deptel 774 May 24 indicated provisions relating to exchange rates (Art VII [VIII]) might be proposed later. This question referred to NAC which recommended language substantially the same as that of the corresponding provision in master European draft so as to make possible exert pressure, if desirable, for the adoption of at least a relatively more realistic exchange rate policy than has been pursued in the last 6 months. Following is language recommended by NAC:

"The Governments of the United States of America and China recognize the importance of appropriate rates of exchange in increasing international trade and the effect of inappropriate rates in increasing the need of China for assistance from the United States of America. Accordingly, the Government of China will consult with the International Monetary Fund concerning revision of its foreign exchange rate or rates, when and if the Government of the United States of America, after discussion with the Government of China, signifies its opinion that such rate or rates are unnecessarily increasing the need of China for assistance from the United States of America."

NAC at same time approved language Art II(c) (Deptel 774) pointing out that much more advanced inflation in China requires a more diluted version than in Master Draft if ECA not to be placed in position having to ask China achieve what is patently impossible in near future.

For Lapham: ECA somewhat concerned with restrictive language NAC version Art. 7, para 5, and requests your urgent views this section.

For Embassy: With exception revision Art. 7 para 5, NAC suggested changes are acceptable and should be communicated to Chinese as revisions of the draft.

MARSHALL

893.50 Recovery/6-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1948—3 p. m.

[Received June 21—6:36 a. m.]

1103. Embassy sees no objection to changes proposed by NAC for article VII (reDeptel 900, June 19, 10 a. m.). Reference Deptel has been repeated by Embassy to Shanghai for Lapham who presumably will comment to you directly.⁶

Repeated Shanghai 500.

STUART

893.50 Recovery/6-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1948—5 p. m.

[Received June 21—6:36 a. m.]

1105. ReDeptel 861, June 9. Embassy anxiously awaiting promised revised text of article III of bilateral for presentation to Chinese.

Repeated to Shanghai 501.

STUART

840.50 Recovery/6-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1948—6 p. m.

[Received June 21—7:09 a. m.]

1106. Upon further consideration Embassy believes following language would probably meet understandable Chinese objection to paragraph 2 of article XII (reEmbtel 1109, June 21,⁷ repeated Shanghai as 505) and at same time would employ language possessing accepted international usage.

"The Govt. of China agrees to grant to the members and staff of the special mission and the Joint Committee on Foreign Economic Cooperation of the Congress of the United States of America the privileges and immunities usually accorded to diplomatic missions in China to the end that they may effectively perform their necessities under the Act."

STUART

⁶ ECA telegram No. TOECA 65, June 26, 11 a. m., not printed.

⁷ *Infra.*

893.50 Recovery/6-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1948—7 p. m.

[Received 11:42 p. m.]

1109. For Department and ECA. Embassy transmitted to Foreign Office, by *aide-mémoire* date June 15, changes in draft bilateral contained in Deptel 873 of June 11, 7 p. m. (received June 13).

Foreign Office has now replied by *aide-mémoire* stating that it can agree to all referenced changes except paragraph 2 of article XII. Foreign Office suggests following substitute language: "The Government of China agrees to grant to the members of the Special Mission and the Joint Committee on Foreign Economic Cooperation of the Congress of the United States of America the privileges and immunities necessary to the effective performance of their responsibilities under the Act."

In support Foreign Office points out that Department's language so broad as to require extension diplomatic privileges to total personnel of mission whereas in case of Embassy and other diplomatic establishments such privileges and immunities are not extended to all employees. Embassy believes that Chinese Government will be entirely reasonable in extending privileges under its proposed language to all ranking individuals and accordingly recommends acceptance Chinese proposed language.

Repeated Shanghai 505.

STUART

893.50 Recovery/6-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 23, 1948—noon.

[Received June 23—8:06 a. m.]

1128. For Department and ECA. In further conversation with Foreign Office re bilateral, it was informally indicated that US draft article VIII (Deptel 900, June 19, 10 a. m.) would be acceptable to Chinese. Text had been communicated to Foreign Office by *aide-mémoire* June 21.

Tung Ling of Foreign Office unmistakably speaking for Foreign Minister reiterated political impossibility of Government accepting article V, subparagraph *b*. Department is aware of state Chinese public opinion re Japan in any aspect. If, as Embassy understands, MFN treatment for Japan and southern Korea is not specifically re-

quired by text Economic Cooperation Act, Embassy strongly recommends deletion this subparagraph.

Tung also re-expressed hope article III could be covered by expansion of article II, subparagraph *d*, but Chinese resistance on this point Embassy believes can be overcome.

Embassy informed that at prolonged Executive Yuan session June 22, decision was unanimously taken to treat bilateral as in nature of a US executive agreement. Legislative Yuan is being asked to pass resolution thanking US Government for aid and authorizing Executive Yuan to negotiate necessary agreements within scope of China Aid Act. When concluded, Legislative Yuan would be informed of terms of agreement but according to plan prior ratification by Legislative Yuan is not being sought.

Sent Department 1128, repeated Shanghai 51.

STUART

893.50 Recovery/6-2348

Memorandum of Conversation, by the Assistant Secretary of State for Political Affairs (Armour) ^s

[WASHINGTON,] June 23, 1948.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. Armour, Assistant Secretary of State
Mr. Sprouse, Division of Chinese Affairs

The Chinese Ambassador called upon me today by appointment to discuss various phases of the China aid program and other aspects of Sino-American relations.

Dr. Koo opened the conversation by explaining that the Chinese Government faced two serious difficulties in the negotiation of the bilateral agreements covering United States aid to China: First, it was necessary to take into consideration the attitude of the Legislative Yuan, which was exceedingly zealous regarding any provisions which might appear to discriminate against China in comparison with the European nations being extended aid by the United States; secondly, there was the factor of public opinion in China, which was swayed by student activities directed against American policy in Japan and any American action in China which might serve to offer a basis for criticism. He pointed out that student criticism of the United States had arisen from Communist agitation. It was for these reasons, he explained, that the Chinese Government was particularly concerned that China be given treatment in the bilateral agreement similar to that accorded European countries.

^s Drafted by Philip D. Sprouse, Chief of the Division of Chinese Affairs.

When I explained to Dr. Koo that in the final analysis that the advantages and disadvantages in the two types of agreements would in general balance themselves and that certain undertakings were, in accordance with the legislation, being required of the European countries, such as currency stabilization and establishment of valid rates of exchange, which could not be included in the agreement with China, Dr. Koo changed his tune somewhat and said that the chief matter of concern was that the Chinese Government not be asked to include in the bilateral agreement those general provisions which were not being required of the European countries. He went on to explain that he referred to such matters as most-favored-nation treatment in occupied areas and utilization of private Chinese assets in the United States. For example, he said, if the European countries found such provisions unacceptable, the Chinese wished to urge very strongly that reconsideration be given to the question of inclusion of such provisions in the bilateral agreement with China.

I replied that this was a matter for decision by Mr. Thorp⁹ and that I would be glad to refer this to him for consideration.

Following general discussion of the bilateral agreement covering economic aid to China and the negotiation in Nanking, Dr. Koo then referred to the bilateral agreement on rural reconstruction. He emphasized that the Chinese Government was apprehensive of the reaction in China to that part of Article II of this agreement which made the Joint Commission subject to the direction and control of the Administrator for Economic Cooperation. He said that this would be taken by the Chinese as an indication that a super-agency was being created which would be above the Chinese Government itself and under the control of the United States Administrator. He continued that the Chinese Government wished to insert in this Article language which would indicate that the Commission's program would be subject to the approval of the Chinese Government. This, he felt, would serve to allay Chinese public suspicion and criticism that the Chinese Government was, in effect, concluding an agreement derogatory to its sovereignty.

I pointed out to Dr. Koo that we were very properly subject to the legislation on this point, that the wording of this part of the Agreement followed the language of the Act and that the Congress had expressed itself very clearly on this point. I added that the fact that the Commission itself was to be composed of two Americans and three Chinese made it clear that the Congress had expected that the program of the Commission would have Chinese approval. I went on to point out that there must naturally be a spirit of cooperation and joint agreement on the program since without such procedure it would

⁹ Willard L. Thorp, Assistant Secretary of State for Economic Affairs.

be impossible to carry out an effective program of this nature in China. I said that we were willing to substitute language which would merely state that the Commission would be subject to the provisions of the Act and particularly Section 407 thereof provided it were clearly understood that this change meant no difference in meaning. This should, I felt, remove from the agreement language that might be found objectionable in China without actually changing the meaning.

Dr. Koo returned to his contention that it was not so much the language as the indication that the program would be subject to the Administrator and not to the approval of the Chinese Government, but finally seemed to understand my explanation that we could not depart from the legislation and that, no less than the Chinese Government vis-à-vis its Legislative Yuan, we would in the United States be subject to criticism from the Congress if we were to change the wording of this part of the China Aid Act to make it differ from that approved by the Congress. I said that I felt certain that the Congress had not expected that the program would be formulated without reference to the Chinese Government and that it had probably for that very reason provided for a Chinese majority on the Joint Commission. Dr. Koo said that he would communicate these views to his Government at Nanking.

Dr. Koo then turned to the matter of the aid to China under the \$125 million grants authorized in Section 404(b) of the China Aid Act. I informed him that a note had been prepared for forwarding to him at the earliest possible moment after the President had signed the Foreign Aid Appropriation Act, 1949,¹⁰ and that it was expected that this would occur either late today or tomorrow. Further on this general subject, I informed Dr. Koo that we had requested the Secretary of Defense¹¹ to designate certain officers of the Departments of the Army, Navy and Air Force whom the recently arrived Chinese military representatives could approach in connection with Chinese planned purchases of military equipment in this country. I added that the Foreign Liquidation Commissioner¹² had also designated one of his officers to function in a similar manner. The names of the officers so designated would be forwarded to the Chinese Embassy, I said, immediately upon their receipt by the Department from the other Departments. Dr. Koo seemed pleased to have this information and said that he would inform his Government accordingly. When he asked what form or type of agreement would be necessary to implement this portion of the China Aid Act, Mr. Sprouse replied

¹⁰ Approved June 28, 1948; 62 Stat. 1054.

¹¹ James Forrestal.

¹² Fred W. Ramsey.

that it would be a matter of communicating the terms decided upon by the President to govern the disbursement of these funds and a reply from the Chinese Government indicating its agreement to the terms—this to be effected in an exchange of notes.

The conversation then turned to the question of the form that the bilateral agreement on rural reconstruction would take. Dr. Koo referred to information received from his Government that it would be preferable to have this agreement take the form of an exchange of notes. He added that this would be no less binding than a formal bilateral agreement and that its effect would be the same. I said that there would probably be no objection provided that the binding character of an exchange of notes did not differ from that of a bilateral agreement and asked Mr. Sprouse if he had any comments on this subject. Mr. Sprouse said that the Department had recently been informed by our Embassy at Nanking of the Chinese Government's wishes in this regard¹³ and had told the Embassy that there would be no objection to such a procedure provided that it was clearly understood from a legal standpoint that the two types were equally binding.¹⁴ When Dr. Koo made some reference to the Chinese Government's view that in the event of using an exchange of notes to effect this agreement it would not be necessary to register it with the United Nations, I asked him why his Government did not desire registration. Dr. Koo replied that it would be desirable to have as little publicity as possible regarding this agreement. Mr. Sprouse pointed out that one article in the draft agreement provided that the Chinese Government give maximum publicity to the program for rural reconstruction and that this seemed to be inconsistent with the Ambassador's suggestion concerning registration. Dr. Koo then explained that it would avoid unfavorable comment on the agreement in the United Nations by member nations who would be quick to offer criticism. I pointed out that, in my opinion, such an exchange of notes should be registered with the United Nations since it would represent an agreement which would have force equal to that of a formal bilateral agreement but that I would obtain an opinion in this regard from the Department's legal division.¹⁵

Dr. Koo then brought up the subject of the short-fall under the Surplus Property Agreement of August 1946, saying that Chinese representatives in the Pacific area had reported that only about \$320,000,000 of surplus property had to date been removed from the Pacific

¹³ See telegram No. 1052, June 10, noon, from the Ambassador in China, p. 608.

¹⁴ See telegram No. 875, June 13, 1 p. m., to the Ambassador in China, p. 608.

¹⁵ In a memorandum of June 25 the Director of the Office of Far Eastern Affairs (Butterworth) informed Mr. Armour that the Office of the Legal Adviser had taken the position that "regardless of the form that this agreement takes it must be registered with the UN Secretariat." (893.50 Recovery/6-2848)

Islands and that it was now evident that the balance of the surplus to be removed would be very small. He said that his Government now wished to inquire whether it would be possible to complete the deliveries under this Agreement from the Zone of the Interior. Dr. Koo added that he would shortly forward me an *aide-mémoire* on this subject,¹⁶ but that he wished to bring the matter to my attention at this time.

[Here follows summary of discussions on United Nations matters and American policy in Eastern Europe.]

N[ORMAN] A[RMOUR]

893.50 Recovery/6-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 23, 1948—6 p. m.

[Received June 23—11 : 19 a. m.]

1133. In first sentence (enclosed in quotation marks) of fourth paragraph of Deptel 900, June 19, did NAC really mean to add words "including in particular" and if so is it intended that text of original draft aid agreement should continue thereafter listing *a, b, c* and *d*, illustratively as types of expenditures? It would seem to Embassy that if NAC proposed deletion of paragraph 5 as stated in third paragraph of reftel the words "including in particular" should be stricken and remaining truncated sentence would stand alone as revised paragraph 5. Please clarify soonest.

Sent Department 1133, repeated Shanghai 517.

STUART

840.50 Recovery/6-2448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 24, 1948—noon.

[Received June 24—3 : 06 a. m.]

1134. For Department and ECA. Despite earlier informal Foreign Office reaction regarding article VIII (see first paragraph Embtel 1128, June 23), Tung Ling told us last night that further discussions this article with other Ministries concerned promises extreme difficulty Chinese acceptance. His argument heavily based on alleged successful refusals certain European countries to accept similar pro-

¹⁶ Apparently not received in the Department.

vision. Foregoing underlines importance Embassy request contained in Embtel 1119, June 22.¹⁷

Please expedite text article III, reEmbtel 1105, June 21, as well as your decision regarding preamble and sub-paragraph 2 of article XII.

Embassy also desires re-emphasize necessity delete paragraph 1-b, article V, reEmbtel 1128, and previous this subject.

Time drawing short taking into account necessity Embassy check of Chinese text subsequent reaching agreement with Chinese on full English text.

Repeated Shanghai 518.

STUART

893.50 Recovery/6-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 24, 1948—11 p. m.

920. Comments have been deferred re Embtels 1082 June 14 and 1084, June 15 pending revisions certain standard Articles being negotiated UK, France, Denmark and Sweden on behalf OEEC countries. Changes have now been made and Dept believes most of them should be applied China Agreement. Many provisions have been recast and condensed so as to improve appearance from viewpoint of other Govts. Please transmit immediately to Fonmin revised text which will follow separate telegram.¹⁸ Comments below offered in explanation application to China Agreement of revisions in standard articles as well as responsive reftels.

1. *Preamble*. Dept agreeable Fonoff suggestion Embtel 1010 June 5 but proposes drafting change in second paragraph as indicated accompanying text. Emb may wish relate this concession of form to negotiation more difficult points of substance.

2. *Article I (Assistance)*. Redrafted to make unnecessary original paragraph 2 which should be deleted. European draft, second sentence reads in part "and subject to all of the terms, conditions and termination provisions of, et cetera". Since Title IV contains "termination provisions" only by interpretation applicable provisions Title I, last sentence this Article has been retained from previous draft to avoid ambiguity, although this sentence is no longer employed European Agreements.

¹⁷ In telegram No. 1119, June 22, 7 p. m., the Embassy asked to be informed of substantial changes agreed to in negotiating agreements with European nations where such changes appeared in articles comparable to those in the draft agreement with China. Such information was particularly important "since one of main arguments when Chinese resistance appears is that European beneficiaries of economic assistance are assuming same obligations as Chinese." (840.50 Recovery/6-2248)

¹⁸ *Infra*.

3. *Article II* (General Undertakings). Paragraph 1 (*a*) expanded to include essence of previous Article IV paragraph 1, and Article VI. New paragraph 2 represents previous paragraph 2 of Article V. Intended that minutes of negotiations to be appended as Annex to signed Agreement, indicate that requirements paragraph 1 (*a*) (i) of new Article II include effective measures for safeguarding aid goods and for preventing their diversion to illegal or irregular markets or channels of trade. Word "undertakes" at end of introductory sentence para 1 has been replaced by "will use its best endeavors" in European agreements. ECA feels "undertakes" should be retained China agreement and Dept does not object. Emb should explain to Fonmin this change in European agreements but should emphasize that retention "undertakes" China agreement reflects belief this agreement should stand on its own feet and that there should be no question regarding Chinese intentions points specified this Article.

4. *Article III* (Improvement of Commercial Relations). Will be forwarded promptly.¹⁹

5. *Article IV* (Principles of Distribution). Paragraph 1 deleted and rephrased under Article II paragraph 1 (*a*) (i) as indicated above. Dept interested learn exact text presented Chinese and their reaction thereto (Deptel 892 June 17). In line with telephone conversation Lapham-Gilpatric-Cleveland,²⁰ 22 June, ECA agrees use word "prices" instead of "price policies" in para 4. Dept does not object.

6. *Article V*. Previous para 1 re MFN treatment deleted on understanding MFN for occupied areas will be handled through exchange notes, draft of which being sent separate telegram.²¹ Former para 1 (*a*) considered unnecessary in view unconditional MFN treatment already obtained GATT and Treaty. This procedure should meet ChiGovt's objections in part. Fonmin's point that neither Japan nor southern Korea included "participating countries" irrelevant since China is not participating country of OEEC either. Dept suggests Emb explain that US attaches great importance in its foreign economic policy to principle of MFN treatment; that since occupied areas represent economic burden on U. S. and U. S. aid will help Chinese economy, it is only fair to require that equitable treatment be accorded commerce occupied areas. Previous para 2 on restrictive business practices shifted to new Article II, para 2. New Article V deals with local currency Special Account. Dept and ECA awaiting Lapham comments NAC change paragraph 5 reference Deptel 900 June 19 and Embtel 1103 June 21. Note that if NAC change introductory sentence para 5 adopted, subparagraph 5(*a*) re sterilization should be

¹⁹ See telegram No. 923, June 24, 11 p. m., p. 570.

²⁰ Harlan Cleveland, Director, China Aid Division, ECA.

²¹ See telegram No. 922, June 24, 11 p. m., p. 571.

deleted and remaining subparagraphs relettered accordingly. Dept assumes that Fonmin's proposal adopt exchange provisions USEF²² agreement in Article VIII (Embtel 1082 June 14) intended apply previous Article VII. Unable understand why Fonmin reverted this proposal after alternative proposal exchange rate (Embtel 1010 June 5 Section 7) had been accepted (Deptel 861 June 9). Latter proposal should be retained.

8. [*sic*] *Article VI*. Previous text re assets in US deleted and this undertaking appears present Article II paragraph 1 (*a*) (ii). Article VI now deals with access to materials and has been subject only minor drafting changes.

9. *Article VII* previously local currency Special Account; now relates relief supplies previously dealt with under Article X. Only minor drafting changes made this Article.

10. *Article VIII*. Text relating consultation exchange rate policy (Deptel 900 June 19 erroneously referred to as Article VII) has been deleted in consultation NAC as result European objections. Deletion this Article in European agreements justified partly by retention undertaking in Article II paragraph 1 (*c*) to maintain valid rate of exchange, and general consultation Article. Although Article II para 1 (*c*) in China draft is weaker, question of exchange rate policy can probably be subsumed under it should the US desire consult with Chigovt on this matter. Fonmin should understand this possible alternative approach, although it is probably entirely unnecessary and undesirable make strenuous effort elicit Chinese interest re exchange rate consultation which could place responsibility on U. S. Govt.

11. Present Articles VIII and IX represent redrafting of previous Article XI and are self-explanatory. Article VIII conforms new European draft and Article IX paragraph 1 remains unique for China.

12. *Article X* (Missions) represents minor revision of previous Article XII. Concluding phrase paragraph 2 first sentence "of comparable rank" should meet Fonmin's objection previous language (Deptel 873, June 11 and Embtels 1106 and 1109, June 21). Present draft standard all agreements.

13. *Article XI* (Settlement of Claim of Nationals), previous Article XIII, being redrafted and will be forwarded promptly.²³

14. *Article XII* (Entry into Force, Amendment, Duration) previous Article XIV, has been revised European draft to include special reciprocal termination provision which takes account possibility change in basic assumptions underlying agreement, life of which extends considerably beyond period of present appropriation. Since

²² United States Educational Foundation.

²³ Telegram No. 927, June 25, p. 573.

this not the case for China, Dept believes previous Article XIV should be retained as Article XII with addition indicated separate telegram.

MARSHALL

893.50 Recovery/6-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 24, 1948—11 p. m.

921. Following is revised text certain articles China Agreement as indicated Deptel 920 together with minor drafting changes other articles:

Preamble: The Government of the United States of America and the Government of the Republic of China:

Considering that it is the policy of the Government of the United States of America to extend economic assistance to the people and the Government of China in accordance with the provisions of the China Aid Act of 1948;

Considering that it is the policy of the Government of China to undertake a vigorous program of self-help in order to create more stable economic conditions in China, and to improve commercial relations with other countries;

Have agreed as follows:

Article I—(Assistance)

The Government of the United States of America undertakes to assist China, by making available to the Government of China or to any person, agency or organization designated by the latter Government such assistance as may be requested by it and approved by the Government of the United States of America. The Government of the United States of America will furnish this assistance under the provisions, and subject to all of the terms, limitations and conditions, of the China Aid Act of 1948 (other than Section 404 (b) thereof), acts amendatory and supplementary thereto and appropriation acts thereunder, and will make available to the Government of China only such commodities, services and other assistance as are authorized to be made available by such acts. The Govt of the United States of America may suspend or terminate at any time the assistance under this Article.

Article II—(General Undertakings)

1. In order to achieve the maximum improvement of economic conditions through the employment of assistance received from the Government of the United States of America, the Government of China undertakes

a) to adopt or maintain the measures necessary to ensure efficient and practical use of all the resources available to it, including:

(i) such measures as may be necessary to ensure that the commodities and services obtained with assistance furnished under this Agreement are used for purposes consistent with this Agreement; and

(ii) to the extent practicable, measures to locate, identify and put into appropriate use in furtherance of its efforts to improve economic conditions in China, assets, and earnings therefrom which belong to nationals of China and which are situated within the United States of America, its territories or possessions. Nothing in this clause imposes any obligation on the Government of the United States of America to assist in carrying out such measures or on the Government of China to dispose of such assets;

b) to promote the development of industrial and agricultural production on a sound economic basis;

c) to initiate and maintain financial, monetary, budgetary and administrative measures necessary for the creation of more stable currency conditions and for the promotion of production and marketing of goods for domestic consumption and export; and

d) to cooperate with other countries in facilitating and stimulating an increasing interchange of goods and services with other countries and in reducing public and private barriers to trade with other countries.

2. The Government of China will take the measures which it deems appropriate to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which restrain competition, limit access to markets or foster monopolistic control whenever such practices or arrangements have the effect of interfering with the execution of the provisions of this Agreement.

*Article III—(Improvement of Commercial Relations)*²⁴

Article IV—(Principles of Distribution)

Article V—(Local Currency)

Insert "within China" in paragraph 3 following "administrative expenditures in Chinese currency" and preceding "incident to operations". Change introductory phrase first sentence, para 4 to read "The Government of China will further make such sums" instead of "The Government of China undertakes further to make such sums".

Paragraph 4 (b) changed to read as follows:

"b) costs (including port, storage, handling and similar charges) of transportation from any point of entry in China to the consignee's designated point of delivery in China of such relief supplies and packages as are referred to in Article VII."

Article VI—(Access to Materials)

Paragraph 1, first sentence: Replace "undertakes to" immediately

²⁴ For proposed text of this article, see Department's telegram No. 923, June 24, 11 p. m., p. 571.

following "the Government of China" with the word "will". Delete word "and" and insert comma in last phrase immediately preceding "after due regard". Second sentence: First phrase revised to read "The Government of China will take such specific measures as may be necessary to carry out the provisions of this paragraph." Third sentence: Revised to read "The Government of China will, when so requested by the Government of the United States of America, enter into negotiations, etc". Paragraph 2: Revised to read "The Government of China will, when so requested by the Government of the United States of America, negotiate such arrangements, etc."

Paragraph 3: Revised to read "The Government of China will, when so requested by the Government of the United States of America, use its influence with its nationals to further the objectives of paragraphs 1 and 2 of this Article in respect of materials originating outside of China."

Article VII—(Relief Supplies) :

The Government of China will, when so requested by the Government of the United States of America, enter into negotiations for agreements (including the provision of duty-free treatment under appropriate safeguards) to facilitate the entry into China of supplies of relief goods donated to or purchased by United States voluntary non-profit relief agencies and of relief packages originating in the United States of America and consigned to individuals residing in China.

Article VIII—(Consultation and Transmittal of Information)

1. The two Governments will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to operations or arrangements carried out pursuant to this Agreement.

2. The Government of China will communicate to the Government of the United States of America in a form and at intervals to be indicated by the latter after consultation with the Government of China :

a) detailed information regarding projects, programs and measures proposed or adopted by the Govt. of China to carry out the provisions of this Agreement;

b) full statements of operations under this Agreement including a statement of the use of funds, commodities and services received thereunder, such statements to be made in each calendar quarter;

c) information regarding its economy and any other relevant information which the Government of the United States of America may need to determine the nature and scope of operations, and to evaluate the effectiveness of assistance furnished or contemplated under this Agreement.

3. The Government of China will assist the Government of the United States of America to obtain information relating to the materi-

als originating in China referred to in Article VI which is necessary to the formulation and execution of the arrangements provided for in that Article.

Article IX—(Publicity)

1. The Government of China will keep the people of China fully informed of the progress achieved by the Government of China in implementing the undertakings contained in this Agreement designed to achieve more stable economic conditions in China, and it will provide continuously information to the people of China regarding the nature and extent of assistance furnished pursuant to this Agreement. It will make such information available to the media of public information and will take practicable steps to ensure that appropriate facilities are provided for the dissemination of such information.

2. The Government of the United States of America will encourage the dissemination of such information and will make it available to the media of public information.

3. The Government of China will make public in China in each calendar quarter full statements of operations under this Agreement, including information as to the use of funds, commodities and services received.

Article X—(Missions)

1. The Government of China agrees to receive a Special Mission for Economic Cooperation which will discharge the responsibilities of the Government of the United States of America in China under this Agreement.

2. The Government of China will, upon appropriate notification from the Ambassador of the United States of America in China, consider the Special Mission and its personnel as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. The Government of China will further accord appropriate courtesies to the members and staff of the Joint Committee on Foreign Economic Cooperation of the Congress of the United States of America, and will grant them the facilities and assistance necessary to the effective performance of their responsibilities.

3. The Government of China will extend full cooperation to the Special Mission and to the members and staff of the Joint Committee. Such cooperation shall include the provision of all information and facilities necessary to the observation and review of the carrying out of this Agreement, including the use of assistance furnished under it.

Article XI—(Settlement of Claims of Nationals)—Text being forwarded separate telegram.²⁵

²⁵ Telegram No. 927, June 25, 8 p. m., p. 573.

Article XII—(Entry into Force, Amendment, Duration)—Add following sentence to paragraph 1: “Article V shall remain in effect until all the sums in the currency of China required to be disposed of in accordance with its own terms have been disposed of as provided in such article.”

Make additional changes Article VI (Access to Materials) as follows:

Paragraph 1, first sentence: Change “materials which are required”, to “materials originating in China which are required”.

Paragraph 2: Substitute “appropriate” for “required” immediately following “negotiate such arrangements as are”.

MARSHALL

893.50 Recovery/6-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 24, 1948—11 p. m.

922. Following is text note to be proposed for exchange with ChiGovt re MFN treatment occupied areas as indicated Deptel 920.²⁶ Both notes would be in identical language and should be exchanged at time of or prior signature bilateral agreement.

“I have the honor to refer to the conversations which have recently taken place between representatives of our two Govts relating to the territorial application of commercial arrangements between the United States of America and the Republic of China and to confirm the understanding reached as a result of these conversations as follows:

1. For such time as either the Government of the United States of America or the Government of the Republic of China participates in the occupation or control of any areas in western Germany, the Free Territory of Trieste, Japan or southern Korea, the other Government will apply to the merchandise trade of such area the provisions of the General Agreement on Tariffs and Trade dated October 30, 1947, as now or hereafter amended, relating to most-favored-nation treatment.

2. The undertaking in point 1, above, will apply to the trade of any area referred to therein only for such time and to such extent as such area accords reciprocal most-favored-nation treatment to the merchandise trade of the country or countries obligated by the undertaking in point 1.

The undertakings in points 1 and 2, above, are entered into in the light of the absence at the present time of effective or significant tariff barriers to imports into the areas herein concerned. In the event that such tariff barriers are imposed, it is understood that such undertakings shall be without prejudice to the application of the principles set forth in the Havana Charter for an International Trade Organization²⁷ relating to the reduction of tariffs on a mutually advantageous basis.

²⁶ June 24, 11 p. m., p. 563.

²⁷ Approved March 24, 1948, by the United Nations Conference on Trade and Employment; for text, see Department of State Commercial Policy Series No. 114: *Havana Charter for an International Trade Organization*, p. 23.

4. It is recognized that the absence of a uniform rate of exchange for the currency of the areas in Western Germany, Japan or southern Korea referred to in point 1, above, may have the effect of indirectly subsidizing the exports of such areas to an extent which it would be difficult to calculate exactly. So long as such a condition exists, and if consultation with the Government of the United States of America fails to reach an agreed solution to the problem, it is understood that it would not be inconsistent with the undertaking in point 1 for the Government of China to levy a countervailing duty on imports of such goods equivalent to the estimated amount of such subsidization, where the Government of China determines that the subsidization is such as to cause or threaten material injury to an established domestic industry or is such as to prevent or materially retard the establishment of a domestic industry.

5. The undertakings in this note shall remain in force until January 1, 1951, and unless at least 6 months before January 1, 1951, either government shall have given notice in writing to the other of intention to terminate these undertakings on that date, they shall remain in force thereafter until the expiration of 6 months from the date on which such notice shall have been given.

Please accept, Excellency, the renewed assurances of my highest consideration."

Emb should point out that language of note is identical those being negotiated European countries. Termination date and provisions in Paragraph 5 have been made identical with those in GATT.

MARSHALL

893.50 Recovery/6-2448: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 24, 1948—11 p. m.

923. Following is text Article III (Improvement of Commercial Relations) agreed by Dept, ECA and Commerce:

"1. The Government of China undertakes to make all practicable efforts to improve commercial relations with other countries, including measures to improve the conditions affecting the carrying on of foreign trade by private enterprises in China.

2. The Government of China, in carrying out the provisions of paragraph 1 of this Article, will, among other measures, administer such import and exchange controls as are, or may be, made necessary by the exigencies of China's international balance of payments and the foreign exchange resources available to the Government of China, in a uniform, fair and equitable manner.

3. The Government of the United States of America and the Government of China will consult, upon the request of either, regarding any matter relating to the application of the provisions of this Article, including:

(a) measures for improving the efficiency of the administrative agencies and organs of the Government of China charged with the duty of supervising the operation of laws, regulations, rules

and administrative and judicial decisions affecting the importation or exportation of goods or the transfer of payment therefor;

(b) measures giving effect to the policy statement of the President of the Executive Yuan of the Republic of China, issued to the public on August 13, 1947,²⁸ concerning the investment of foreign capital in China, and assuring fair, equitable and non-discriminatory treatment to enterprises in China in which American investors now or hereafter participate;

(c) the effect on commercial relations with the United States of America of the operations of enterprises owned or controlled by the Government of China which may be engaged in the conduct of foreign trade."

Request Embassy's immediate appraisal this language, particularly re possibility, if any, that it may be used as point of attack ChiGovt and U. S. by opposition groups within Kmt China and by Communists, and seriousneses such attack. If Embassy has no important reservations re this text, please transmit Fonmin immediately. Dept's comments will follow shortly.²⁹

MARSHALL

893.50 Recovery/6-2548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1948—4 p. m.

[Received June 25—8:09 a. m.]

1149. In light Cleveland-Gilpatric telephone conversation and discussion with ECA Mission here June 25, Embassy has agreed best wording article IV, paragraph 4 is first sentence recommended for paragraph 4 in TOECA 31 of June 11 and so presented in *aide-mémoire* today. Embassy likewise now supports ECA strong desire leave article VII, paragraph 5, unchanged, and accordingly has not submitted NAC suggestion paragraph 5 to Foreign Office. Lapham will telegraph ECA from Shanghai detailed supporting views.

Sent Department 1149, repeated Shanghai 525.

STUART

893.50 Recovery/6-2548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1948—5 p. m.

[Received June 25—7:20 a. m.]

1152. For Department and ECA. Foreign Affairs [*Foreign Office*] today orally informed Embassy (with confirming *aide-mémoire* due

²⁸ Not printed; this statement was almost identical to that approved by the State Council on August 1, 1947, which was summarized in telegram No. 1646, August 2, 1947, 5 p. m., *Foreign Relations*, 1947, vol. VII, p. 1374. The texts of both statements were transmitted to the Department with despatch No. 958, August 29, 1947, not printed (893.50/8-2947).

²⁹ See telegram No. 929, June 25, 8 p. m., p. 574.

tonight) that article VIII contained Deptel 900, June 19, and submitted by *aide-mémoire* to Foreign Office June 21 is unacceptable. Foreign Office requests deletion. Request reached after consultation Foreign Minister, Finance Minister and Governor Central Bank. It is based on (1) their fear of impact its presence in agreement might now or later have on highly sensitive Shanghai speculative markets with consequent damage to whole Chinese economy and (2) suspicion amounting almost to conviction as a result of newspaper stories widely publicized here that certain or all European beneficiaries of EC Act have successfully resisted inclusion this or similar article in their negotiations with USA. This connection see Embtel 1119 of June 22, 7 p. m.³⁰

Given advanced state inflation here, Embassy inclines believe article VIII says either too little or too much and accordingly might well be dropped.

Sent Department 1152, repeated Shanghai, 527.

STUART

893.50 Recovery/6-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 25, 1948—8 p. m.

927. Following is text Article XI (Settlement of Claims of Nationals) as indicated Deptel 920 June 24:

"1. The Governments of the United States of America and China agree to submit to the decision of the International Court of Justice any claim espoused by either Government on behalf of one of its nationals against the other Government for compensation for damage arising as a consequence of governmental measures (other than measures concerning enemy property or interests) taken after April 3, 1948, by the other Government and affecting property or interest of such national, including contracts with or concessions granted by duly authorized authorities of such other Government. It is understood that the undertaking of each Government in respect of claims espoused by the other Government pursuant to this paragraph is made in the case of each Government under the authority of and is limited by the terms and conditions of such effective recognition as it has heretofore given to the compulsory jurisdiction of the International Court of Justice under Article 36 of the Statute of the Court.³¹ The provisions of this paragraph shall be in all respects without prejudice to other rights of access, if any, of either Government to the International Court of Justice or to the espousal and presentation of claims based upon alleged violations by either Government of rights and duties arising under treaties, agreements or principles of international law.

³⁰ Not printed; see footnote 17, p. 563.

³¹ 59 Stat. (pt. 2) 1055, 1060.

2. The Governments of the United States of America and China further agree that such claims may be referred, in lieu of the Court, to any arbitral tribunal mutually agreed upon.

3. It is further understood that neither Government will espouse a claim pursuant to this Article until its national has exhausted the remedies available to him in the administrative and judicial tribunals of the country in which the claim arose."

Article XI now in completely reciprocal terms. European Governments insisted this only way article acceptable their parliaments. Since by U. S. constitutional practice no agreement to international arbitration can be made without Senate ratification, undertaking of U. S. must be strictly limited by existing Senate acceptance compulsory jurisdiction International Court as set forth Declaration of President to U. N. August 14, 1946.³² In order make this article reciprocal, therefore, necessary allow Chinese and other governments having accepted compulsory jurisdiction of Court to limit their undertakings by terms such declarations. Chinese declaration deposited 26 October 1946.

MARSHALL

893.50 Recovery/6-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 25, 1948—8 p. m.

928. Draft note re MFN treatment occupied areas transmitted Deptel 922 June 24 should be corrected as follows: Numbered Paragraph 2 revised to read:

"2. The undertaking in point 1, above, will apply on the part of the Government of the United States of America or the Government of China to the merchandise trade of any area referred to therein only for such time and to such extent as such area accords reciprocal most-favored-nation treatment to the merchandise trade of the United States of America or China, respectively."

MARSHALL

893.50 Recovery/6-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 25, 1948—8 p. m.

929. ReDeptel 923 June 24. New draft art III based on assumption major complaints American businessmen in China adequately covered by GATT and Commercial Treaty with exception state trading and

³² *Foreign Relations*, 1946, vol. I, p. 53; or Department of State *Bulletin*, September 8, 1946, p. 452.

related questions (see memorandum transmitted air pouch with instruction June 23³³).

Par 1 new draft same as original draft, containing general commitment improve commercial relations. Par 2 contains general commitment essentially duplicating commitments already obtained in art X GATT and art XVII Treaty,³⁴ repeated here for emphasis. Par 3 is put on consultative basis, allowing consultation on initiative either Govt regarding any matter relating to provisions of art and in particular regarding three specified matters.

Sub-par 3(a) intended cover improvements in agencies such as Exim boards,³⁵ Central Bank exchange control agencies, Maritime Customs, but Dept offers no specific suggestions since it believes Emb and ConGen Shanghai in better position suggest possible improvements.

Sub-par 3(b) rests on Chang Chun's statement of August 13, 1947. This rather than statement approved by State Council and handed Emb on August 1, 1947³⁶ chosen as basis because it was made public at time and is substantially identical. Dept also regards this sub-par as opportunity secure re-affirmation policies that statement by present Govt, with some implementing measures if possible.

Provisions Sub-par 3(c) intended cover not only question trading by strictly Govt owned corporations or agencies such as UTC³⁷ and Central Trust but also activities so-called "favored firms" where carried on under cloak [of] Govt trade. Emphasis here on effect on commercial relations with US carried on by private enterprise and not intended to ask elimination state trading.

Examples questions Dept believes might come under each heading follow.

Par 2: criteria for registration importers, grant of import licenses, exchange permits; discrimination between private US firms and private Chinese firms, between private US firms and so-called favored firms. This provision not to be used to ask relaxation import or exchange controls but merely to assure uniformity and non-discrimination.

Par 3(a): self-explanatory. See comment above.

Par 3(b): 1. Return to US owners of properties occupied and still held by Chinese military and civil authorities without making arrangements adequate compensation. Validation land titles made

³³ Instruction No. 121, not printed.

³⁴ Treaty of friendship, commerce, and navigation, signed at Nanking, November 4, 1946; Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

³⁵ Boards dealing with export and import matters.

³⁶ Statement approved by the State Council, not printed; see footnote 28, p. 572.

³⁷ Universal Trading Corporation.

indefeasible by 1943 Treaty ³⁸ should also be raised. These affect conduct commercial relations two ways: occupation properties prevents resumption normal business, doubt of land titles discourages resumption business or investment to restore operations.

2. Simplification and speeding up land law procedures for acquisition land for commercial and industrial purposes. Dept understands special permission must now be obtained from Executive Yuan through hierarchy local officials, discouraging if not preventing investment these purposes.

3. Uniform and non-discriminatory tax policies especially in administration. This point fully covered Commercial Treaty but Dept wishes reiterate position.

4. Adequate method for appeal against illegal administrative orders and action, through channels permitting prompt decision and effective suppression illegal demands. Dept understands present procedure requires appeal through official hierarchy to Executive Yuan, thence to Administrative Court, involving interminable delays. Dept has in mind not only attempts apply penal sanctions such as Mysberg case ³⁹ but also the apparently normal flood of Chinese administrative regulations in all matters, frequently having no authority of law.

6. [5?] Authorization of import licenses for repair and replacement equipment for existing essential plant where imported by end-user who provides own exchange. Dept has in mind not general license for such imports but general policy approval applications such importers on case by case examination on merits.

Par 3 (c): Dept especially desires this connection follow up Fon-Off's note November 27, 1947 ⁴⁰ stating UTC would cease operations for private account after liquidation outstanding commitments. Dept does not wish request ChiGovt cease state trading but believes Nov 27 statement might reasonably be taken as moral commitment limit activities to trade for Govt account. Both Dept and Commerce believe it should be made plain to Chinese that activities "favored firm" will also be scrutinized. It should be impressed on them that

³⁸ Treaty relinquishing extraterritorial rights, signed at Washington, January 11, 1943; Department of State Treaty Series, No. 984, or 57 Stat. (pt. 2) 767.

³⁹ This case involved police search of premises in Shanghai of the American-owned Abis Company Federal Inc., USA, on March 3, 1947. The firm's manager, Frederick Mysberg, a Dutch national, was arrested and banknotes, gold bars, and records of the company were seized by police on grounds that its operations violated emergency economic measures promulgated on February 16, 1947. The Shanghai courts decreed one year's imprisonment for Mysberg and ordered the firm's funds confiscated. Text of the emergency measures was reported in telegram No. 299, February 17, 1947, *Foreign Relations*, 1947, vol. VII, p. 1071.

⁴⁰ For summary, see telegram No. 2325, December 2, 1947, 3 p. m., from the Ambassador in China, *Foreign Relations*, 1947, vol. VII, p. 1382.

US businessmen are convinced such firms receive privileged treatment either directly from Govt or through intermediary UTC or other Govt corporations, and burden proof is on them. This very general conviction on part American business affects profoundly its confidence in treatment offered by ChiGovt and hence on commercial relations.

With special reference items listed under Par 3 (b), Emb requested to offer additional suggestions for Dept's consideration if important problems exist which are not covered and are pertinent inclusion under this Par.

Emb and ConGen Shanghai must bear chief responsibility subsidiary consultations this article and likewise follow up on any measures agreed to by Chinese.

MARSHALL

893.50 Recovery/6-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 26, 1948—2 p. m.

[Received June 26—11:01 a. m.]

1156. Reference Embtel 1134 of June 24, noon, and previous. Foreign Office *aide-mémoire* re Article VIII bilateral received June 26 reads as follows:

"Reference is made to the *aide-mémoire* of the American Embassy dated June 21, 1948, transmitting the text proposed by the Department of State for article VIII of the bilateral aid agreement now under negotiation.

The Chinese Govt, while recognizing the importance of maintaining appropriate rates of foreign exchange in international commercial relations, is not in a position to agree to the insertion of the proposed article VIII in the bilateral aid agreement on account of the present abnormal currency situation in China.

It is true that China, as a member of the International Monetary Fund, is under obligation to consult the fund before making any rate change. Since, however, the par value of the Chinese currency has not been fixed and since China's exchange rates are necessarily being constantly adjusted, the fund has recognized, as a matter of practical realism, that prior consultation on the occasion of each change is unfeasible. The fund is content that it be notified of the rates from time to time.

The Chinese Govt is confident that its position in this respect will have the full understanding of the United States Government."

Sent Department 1156, repeated Shanghai 529.

STUART

893.50 Recovery/6-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 26, 1948—2 p. m.

[Received June 26—9:04 a. m.]

1158. Reference Embtel 1147, June 25.⁴¹ Foreign Office informed Embassy June 26 text for article XII, paragraph 2, bilateral contained Deptel 907 of June 22 accepted.

Sent Department 1158; repeated Shanghai 530.

STUART

840.50 Recovery/6-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 26, 1948—6 p. m.

[Received June 26—8:11 a. m.]

1159. Your 920 and 921, both June 24, 11 p. m., received today. Embassy appalled at number and magnitude substantive and language changes. Will exercise best efforts renegotiate agreement basis latest text but in light chronic transmission delays, difference in time, code room load, period required by Foreign Office for interministerial concurrences and necessity to produce Chinese text then requiring Embassy check, main [*in*] combination forces Embassy request Department maximum latitude in negotiation insofar as form and language are concerned provided substance preserved. Please confirm Niac.⁴²

Sent Department 1159, repeated Shanghai 531.

STUART

893.50 Recovery/6-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 26, 1948—6 p. m.

[Received June 26—8:17 a. m.]

1160. Embassy transmitting text article III bilateral contained Deptel 923 of June 24, 11 p. m. (received June 26) to Foreign Office in absence important Embassy reservations. It may prove stronger dose, particularly paragraph 3, than Foreign Office feels Government can take, but we will do best secure acceptance.

Sent Department 1160, repeated Shanghai 532.

STUART

⁴¹ Not printed; it reported the Embassy was awaiting the Chinese Foreign Office reply to its request for revision of article XII, paragraph 2, based on article V, paragraph 1, in telegram No. 907, June 22, 6 p. m., p. 611.

⁴² Night action.

893.50 Recovery/6-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 26, 1948—6 p. m.

[Received June 26—8:44 a. m.]

1161. Embassy transmitting by *aide-mémoire* to Foreign Office today text proposed exchange of notes re MFN treatment occupied areas contained Deptel 922 of June 24, 11 p. m. (received June 26). Embassy convinced that removal from agreement and incorporation in note exchange will not solve or soften the extreme difficulty of Chinese Government making any such commitment re Japan. Risk knowledge of its existence is so great. In context inflamed public opinion this subject, Embassy trusts Department is reconsidering desirability of exposing Wong Cabinet in all its vulnerability to attack on an issue which can be so easily exploited. (RefEmbtel 1128 of June 23, noon, and previous.)

Sent Dept as 1161; repeated Shanghai as 533.

STUART

893.50 Recovery/6-2648 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 26, 1948—6 p. m.

930. Dept fully appreciates difficulties incorporate sweeping changes China agreement as indicated Emb 1159 June 26, and agrees Emb should have maximum latitude negotiation subject following observations. Changes Deptel 921 June 24 were forwarded in belief that in general on standard articles substantive revisions European agreements should be applied China, and that purely drafting changes standard articles should be offered China, if possible, so as to avoid unnecessary Chinese resentment. Some changes of form, if not applied China, would have an undesirable substantive connotation for China agreement.

For example, failure delete former Art VI (Assets in US) and include its substance as new Art II para 1(a)(ii) would imply greater emphasis this undertaking for China than for European countries, whereas if anything, reverse is actually the case. Foregoing, plus necessity find a place for previous Art V para 2, new Art II para 2, indicates desirability retain new draft Art II.

Dept will rely Emb judgment whether divergence China from ERP text on points of form and language would create sufficient Chinese resentment to warrant effort effect changes. In general, Dept believes that, within physical limitations Emb 1159, serious attempt should be

made incorporate all changes transmitted Deptels 920 and 921. With exception introductory sentence Art II para 1, Chinese should find such changes readily acceptable since most of them are concessions.

Dept will not transmit further changes standard articles unless significant points of substance or face involved. Question of minutes to be appended agreement as Annex will be discussed subsequent telegram.⁴³

Only other unresolved questions here on China agreement are (1) wording new Art V para 5 introductory sentence in light Embtel 1149 June 25 and (2) MFN treatment Japan on which instructions will follow.⁴⁴

Sent Nanking 930 rptd Shanghai 1151.

MARSHALL

893.50 Recovery/6-2648

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 26, 1948—8 p. m.

931. As result strong objection UK, France and China, approval has been granted delete Japan from exchange notes these countries re MFN treatment occupied areas (Deptel 922 June 24). Emb authorized so inform FonMin, but should explain that Dept desires Exchange same note with ChiGovt for western Germany, Trieste and southern Korea. While deletion southern Korea reluctantly agreed for UK and French notes, Dept expects several other ERP countries give MFN both Japan and southern Korea in exchange notes.

Sent Nanking 931, rptd Shanghai 1152.

MARSHALL

893.50 Recovery/6-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—11 a. m.

[Received June 27—1:43 a. m.]

1163. Reference paragraph 5, Deptel 920 of June 24, Embtel 1149 of June 25 and Deptel 892 of June 17. Revised article IV (old numbering) of bilateral aid agreement as agreed with Lapham mission was presented by *aide-mémoire* to Foreign Office June 25. Full text contained in Embassy's immediately following telegram.⁴⁴ Foreign Office brusquely rejected proposal by *aide-mémoire* June 26 as "unde-

⁴³ See telegram No. 933, June 28, 3 p. m., p. 584.

⁴⁴ *Infra*.

sirable and unnecessary" and "creates impression that administrative integrity of China is not strictly respected".

Sent Department 1163, repeated Shanghai 534.

STUART

893.50 Recovery/6-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—11 a. m.

[Received June 27—1:55 a. m.]

1164. Exact text article IV (old numbering) as presented to Foreign Office June 25 follows:

"Article IV. 1. The Government of China undertakes to adopt or maintain such measures of control as may be necessary to prevent the diversion of assistance obtained under the provisions of this agreement from the uses for which it was furnished or to uses inconsistent with the purposes of this agreement. These measures shall include effective measures for the prevention of pilferage and of the diversion of commodities furnished under this agreement to illegal or improper markets or channels of trade.

2. All commodities provided by the Government of the United States of America pursuant to this agreement shall be processed and distributed by commercial enterprises or by private or Chinese Government agencies, and in accordance with terms and conditions, agreed upon from time to time between the Government of the United States of America and the Government of China. Representatives of the Government of the United States of America may exercise direct supervision and control over processing and distribution of such commodities.

3. The Government of China, in consultation with representatives of the United States of America, will take all appropriate steps designed to achieve fair and equitable distribution within the areas under its control of commodities provided by the Government of the United States of America pursuant to this agreement and of similar commodities imported into China with other funds or produced locally. To the extent that circumstances and supply availabilities permit, a distribution and price control system shall be inaugurated or maintained in urban centers of China with the intent of insuring that all classes of the population shall receive a fair share of imported or indigenously produced essential civilian supplies. In permitting United States of America expendable commodities made available under the agreement to be utilized in support of the Chinese efforts to improve consumption and price controls, it is understood that the Government of the United States of America takes no responsibility for the success of these urban programs.

4. The prices at which supplies furnished by the United States of America pursuant to this agreement will be sold in China shall be agreed upon between the Government of China and the Government of the United States of America."

Sent Department 1164, repeated Shanghai 535.

STUART

893.50 Recovery/6-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—1 p. m.

[Received June 27—8:43 a. m.]

1165. In conference this morning with Foreign Office, Embassy's revised text article IV (old numbering) rejected. RefEmbtel 1163 and 1164, June 27, 11 a. m. Embassy requests authority *in extremis* to revert to original language this article and secure strict and detailed interpretative commitment in agreed minute of negotiators.

Sent Dept 1165; repeated Shanghai 536.

STUART

893.50 Recovery/6-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—1 p. m.

[Received June 27—8:26 a. m.]

1166. *Aide-mémoire* containing text MFN treatment (refDeptel 922, June 24) occupied areas corrected to conform Deptel 928, June 25, 8 p. m., presented Foreign Office July 27. Poker-face reception with reaction to come which Embassy has every reason to believe will be as foreshadowed in Embtel 1161, June 26, 6 p. m.

Sent Department at 1166; repeated Shanghai 537.

STUART

840.50 Recovery/6-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—6 p. m.

[Received June 27—8:21 a. m.]

1167. At this moment of financial crisis and disquietude symptomized by student attacks on me personally, I feel impelled to point out in connection with negotiation of bilateral aid agreement that our larger interests may well be most effectively served by dealing generously with the Chinese and avoiding imposition of terms of/or language which will lose face for present Cabinet and hence expose it to intensified criticism. There are certain hopeful signs in the general situation, dark though it appears on certain fronts.

STUART

893.50 Recovery/6-2748: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1948—6 p. m.

[Received June 27—8:21 a. m.]

1168. Embassy most grateful Deptel 930, June 26 and appreciates comprehensive and expeditious replies forthcoming from Department to its messages.

Reconstituted draft (Deptels 920 and 921, June 24 and related cable correspondence) presented and discussed June 27 in day-long conference with Tung Ling.⁴⁶ Embassy secured preliminary approval entire draft except articles III and IV. In order achieve this, Embassy revealed all concessions with exception contraction original preamble and deletion verbatim extract from section 402 of act. Latter of great importance to Chinese as a matter of face and reserved for possible rough going later.

Re exchange of notes Foreign Office greatly relieved deletion Japan and may well be possible secure exchange this basis. However Foreign Office made strong plea for additional deletion of reference to southern Korea which is so closely related in Chinese mind to Japanese Empire. Embassy supports Foreign Office's request delete southern Korea particularly in view Department's agreement elimination in UK and French notes (Deptel 931, June 26) which lack geographic continuity and emotional violence. Embassy requests authorization, if necessary, accede this point.

Re Article III, Foreign Office argued in strongest terms that paragraph 1 was maximum Chinese Government could accept. Paragraph 2 and particularly paragraph 3 are according to Chinese point of view humiliating—Embassy held firm and only agreed (1) report this view to Department and (2) transmit any substitute language Foreign Office might concoct which would retain substance.

Re article IV, Embassy encountered strong resistance but has not lost hope of securing agreement to article unchanged. Authorization requested in Embtel 1165, June 27 would, however, be most helpful.

Sent Department 1168, repeated Shanghai 538.

STUART

893.50 Recovery/6-2848: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 28, 1948—1 p. m.

[Received June 28—4:13 a. m.]

1170. Reference article XII bilateral, Embassy and Foreign Office interpretation second sentence is that earliest date agreement could be

⁴⁶ Director of American Affairs Department, Foreign Office.

terminated by either party is June 30, 1950. (Reference Deptel 921, June 21 [24]). [In] master agreement (ECA 1 of May 12⁴⁷) Embassy notes article XVIII by use of word "or" and final phrase "whichever is the later date" termination is possible at any time after 6 months' notice given. If Foreign Office should request similar provision, is reversion to language master agreement cited above acceptable to Department?

Sent Department 1170, repeated Shanghai 540.

STUART

893.50 Recovery/6-2848 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 28, 1948—3 p. m.

933. As indicated Deptel 920, June 24, numbered para 3 re Art. II, interpretative minutes to agreements have recently been developed with ERP countries. They will be appended each European agreement as Annex and will have equal validity [with] agreement. They are important primarily from point of view other govts, although two or three points may be useful to US. Although Annex not vital to China agreement, would not Chigovt have justifiable complaint if not informed contents and given opportunity adopt similar Annex? Emb authorized use its discretion this matter in light time factor (instruction re this subject follows). Emb may have additional points of interpretation standard or unique China articles which it would be helpful include Annex.

If Annex is appended China agreement, Art. XII (Entry into Force, etc.) should have new para inserted after para 2 and final para 3 should be renumbered as 4. New para 3 should read "The Annex to this Agreement forms an integral part thereof".

Following is text those portions Annex applicable China agreement. Note that Section 2 reproduces definition restrictive business practices contained in Art. 46 para 3 Havana ITO Charter.

ANNEX—Interpretative Notes

1. It is understood that the requirements of para 1 (a) of Art. II, relating to the adoption of measures for the efficient use of resources, would include, with respect to commodities furnished under the Agreement, effective measures for safeguarding such commodities and for preventing their diversion to illegal or irregular markets or channels of trade.

2. It is understood that the business practices and business arrangements referred to in para 3 of Art. II mean:

⁴⁷ Not printed.

- (a) Fixing prices, terms or conditions to be observed in dealing with others in the purchase, sale or lease of any product;
- (b) excluding enterprises from, or allocating or dividing, any territorial market or field of business activity, or allocating customers, or fixing sales quotas or purchase quotas;
- (c) discriminating against particular enterprises;
- (d) limiting production or fixing production quotas;
- (e) preventing by agreement the development or application of technology or invention whether patented or unpatented;
- (f) extending the use of rights under patents, trade marks or copyrights granted by either country to matters which, according to its laws and regulations, are not within the scope of such grants, or to products or conditions of production, use or sale which are likewise not the subjects of such grants; and
- (g) such other practices as the two Govts may agree to include.

3. It is understood that the Govt of China is obligated to take action in particular instances in accordance with para 3 of Article II only after appropriate investigation or examination.

4. It is understood that the phrase in Article VI "after due regard for the reasonable requirements of China for domestic use" would include the maintenance of reasonable stocks of the materials concerned and that the phrase "commercial export" might include barter transactions. It is also understood that arrangements negotiated under Article VI might appropriately include provision for consultation, in accordance with the principles of Article 32 of the Havana Charter for an ITO, in the event that stockpiles are liquidated.

5. It is understood that the Govt of China will not be requested, under para 2 (a) of Art. VIII, to furnish detailed information about minor projects or confidential commercial or technical information the disclosure of which would injure legitimate commercial interests.

6. It is understood that the Govt of the USA in making the notifications referred to in para 2 of Art. X would bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges would be requested. It is also understood that the detailed application of Art. X would, when necessary, be the subject of inter-governmental discussion.

7. It is understood that any agreements which might be arrived at pursuant to para 2 of Art. XI would be subject to ratification by the Senate of the USA.

MARSHALL

893.50 Recovery/6-2848: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 28, 1948—5 p. m.

[Received June 28—5 p. m.]

1172. Foreign Office reiterated to us today its objection to articles III and IV (new draft) but presented no new arguments. (RefEmb-tel 1168, June 27, 6 p. m. and previous.)

Foreign Office, however, now asks us to substitute for article II, paragraph 2, of new draft the following language: "2. The Government of China will take the measures which it deems appropriate to prevent, on the part of private or public commercial enterprise, business practices or business arrangements affecting international trade which have the effect of interfering with the purposes and policies of this agreement." Embassy sees no objection to this change.

Sent Department 1172, repeated Shanghai 542.

STUART

893.50 Recovery/6-2748: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 28, 1948—8 p. m.

938. 1. Emb authorized revert original language Article IV, (Embtel 1165 June 27) original paragraph 1 of which presumably now contained Article II. While Dept and ECA agreeable strict and detailed interpretative commitment re Article IV in annex, language used should not be similar revised text Article IV, if this approach is to meet Chinese objections (Embtel 1163 June 27), since annex would be published as integral part Agreement.

2. Dept does not insist inclusion southern Korea [in] MFN notes (Embtel 1168 June 27) if in Emb's judgment FonMin objections reflect realistic appraisal political consequences. Suggest Emb emphasize that some ERP countries (e. g. Italy) are expected extend MFN treatment southern Korea despite lack geographic contiguity and inclusion joint recovery program. Concession this point, if necessary, might prove useful other aspects negotiation.

MARSHALL

893.50 Recovery/6-2848: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 28, 1948—8 p. m.

939. Regarding time factor conclusion China agreement. Administrator required by law suspend aid if bilateral agreement not signed by July 3. Such suspension would be in form of ECA letter notifying Washington representative of receiving government. However, due to holidays, July 4 and 5, suspense action would have little practical effect on program until July 6. Re Embtel 1154, June 25,⁴⁸ Washington time should control deadline signature.

If Rural Reconstruction Agreement cannot be signed prior to or simultaneously preparation final text general bilateral, Art. V, para

⁴⁸ Not printed.

4(a) of latter should be changed to read as follows: "expenditures required to carry out the purposes of a Joint Commission on Rural Reconstruction in China as provided for by Section 407 of the China Aid Act of 1948."

Has Legislative Yuan passed resolution authorizing Executive Yuan negotiate necessary agreements within scope China Aid Act as indicated Embtel 1128, June 23? Embassy should, of course, request Fonmins' authorization sign agreements general bilateral and rural reconstruction, which will take effect as from signature under then existing language.⁴⁹

Dept will telegraph⁵⁰ soonest authorization Ambassador sign agreements and MFN note (Embtel 1169 June 28⁵¹). However, before signature Dept should be informed outcome negotiation and final treatment changes recently transmitted Dept or initiated Nanking.

Sent Nanking as 939, repeated Shanghai as 1158.

MARSHALL

893.50 Recovery/6-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 29, 1948—10 a. m.

[Received June 29—2:35 a. m.]

1174. Foreign Office has informed Embassy it will require 48 hours after complete agreement of English text to prepare Chinese document for simultaneous signature. (RefEmbtel 1171 June 28 and Embtel 1154 June 25).⁵² Embassy check Chinese text must follow which places effective deadline as late June 30 or early July 1.

In event impasse which now looms reference articles III and IV, how seriously would Department assess repercussions and consequences of failure reach and sign agreement by statutory date July 3?

Sent Department 1174, repeated Shanghai 543.

STUART

893.50 Recovery/6-2748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 29, 1948—3 p. m.

945. Views set forth urtel 1167 Jun 27 are shared fully by Dept and these considerations have governed Dept's position re various

⁴⁹ For Embassy's comments on the second and third paragraphs of this telegram, see telegram No. 1180, June 29, 6 p. m., p. 614.

⁵⁰ Telegram No. 953, June 29, 8 p. m., not printed.

⁵¹ Not printed.

⁵² Neither printed.

points negotiations, such as Art IV to which reference made Deptels 815 May 29 and 892 Jun 17 and introductory sentence Art II (Deptel 920 Jun 24). Dept has been of opinion that severe position on matters this nature would not materially affect Chinese performance and would only gain ill-will but has been reluctant take unyielding stand in existing circumstances.

MARSHALL

893.50 Recovery/6-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 29, 1948—5 p. m.

[Received June 29—8:56 a. m.]

1178. Deptel 938, June 28 appreciated and most helpful. Embassy delivered this morning *aide-mémoire* to Foreign Office stating US must insist upon retention articles 3 and 4 as presented by Embassy. Foreign Office visibly shaken.

At later second conference:

1. Foreign Office withdrew all objections to article II, paragraph 1(a)(2), new draft which paragraph had been source considerable discussion.

2. Foreign Office reiterated its desire to see article 2, paragraph 2, rephrased as reported Embtel 1172.⁵³ Embassy supports.

3. Foreign Office capitulated on article 3 to extent willing as "final concession" to accept paragraphs 1, 2 and 3 up through word "article", deleting word "including" and those illustrative topics of conversation labeled subparagraphs *a*, *b* and *c* in new text.

With respect to paragraph (3)(a), Foreign Office reiterated its willingness at any time to consult and attempt to remedy instances where due to inefficiencies or other factors, American commercial interests were suffering under operation of laws, regulations and rules. This is true and in recent weeks Foreign Office has been not only cooperative but effective in such specific matters as obtaining charter for Bank of America and release certain materials Andersen, Meyer [& Co.].

With respect to 3 (b), Embassy has received oral assurance Premier's August 13 statement remains national policy and can seek with probable success commitment in writing this effect prior signature bilateral.

With respect to 3 (c), Foreign Office confirmed today to Embassy that Foreign Minister's November 28 statement⁵⁴ this subject remains policy Chinese Government. In view difficulty Chinese Government accepting article 3, paragraph 2 (which goes well beyond article XVII

⁵³ June 28, 5 p. m., p. 587.

⁵⁴ Embodied, presumably, in the note of November 27, 1947; for summary, see telegram No. 2325, December 2, 1947, 3 p. m., from the Ambassador in China, *Foreign Relations*, 1947, vol. VII, p. 1382.

FCN (Friendship, Commerce, and Navigation) and fact that subparagraphs 3a, b and c are illustrative of topics of consultation and not undertakings *per se*, Embassy recommends acceptance.

4. Foreign Office accepted new article IV *in toto* with exception deletion second sentence paragraph 1 ("direct supervision and control"). Negotiations have made clear and Chinese therein have accepted firm US intention to continue under aid program same type supervision and control employed so successfully by CRM (Chinese Relief Mission). Accordingly, Embassy proposes agree with Chinese article 4 (with single deletion given above), believing, as do Chinese negotiators, that words "in accordance with terms and conditions agreed upon, et cetera" appearing in immediately preceding sentence of paragraph 1 sufficiently covers authority to impose direct supervision and control. Embassy, however, will discuss this point as well as article 3 status with Lapham prior communication any intimation acceptance to Foreign Office.

If foregoing acceptable to Department (including rewording article 2, paragraph 2, Embtel 1172), Embassy believes agreement can be considered reached with time left for mechanics for signature July 2 or 3. Please reply Niact.

Sent Department 1178, repeated Shanghai 546.

STUART

893.50 Recovery/6-2948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 29, 1948—5 p. m.

950. Emb authorized reach agreement Chinese on basis recommended urtel 1178 June 29. Dept believes would be desirable obtain written assurances re substance 3 (a), 3 (b) and 3 (c) but will leave it your discretion what assurances along these lines, written or oral, should be requested. Should be made clear to Chinese that any written assurances agreed upon will be made public.

MARSHALL

893.50 Recovery/6-2948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 29, 1948—8 p. m.

951. As indicated previous telegrams, Dept and ECA quite agreeable deletion "direct supervision and control" Article IV and Embassy authorized finalize language this article as proposed Embassy 1178 June 29. (Sent Nanking as 951, Rptd Shanghai as 1173.)

MARSHALL

893.50 Recovery/6-2848: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 29, 1948—8 p. m.

952. Following miscellaneous comments re negotiation Bilateral:

1. Chinese redraft Article II paragraph 2 acceptable (Embtel 1172 June 28) ;

2. Re Embtel 1170 June 28, Embassy's interpretation master Agreement (ECA 1 of May 12) Article XVIII incorrect. Close reading should indicate that this previous version sets June 30, 1950 as earliest termination date. Present Article XII paragraph 1 second sentence as indicated Deptel 873 June 11 represents revision to clarify possibility extend Agreement beyond June 30, 1950. If FonMin requests language to permit earlier termination, suggest Embassy explain that paragraph 2 covers such contingency.

3. Following agreements have been signed without any major substantive changes applicable China other than those already transmitted Embassy: UK signed June 26; ⁵⁵ France, Ireland and Italy signed June 28; ⁵⁶ Denmark, Norway signed June 29.⁵⁷ (Embtel 1171 June 28 ⁵⁸)

4. Minor substantive change has been made European Agreements applicable Article VI China draft (Access to Materials) and should be effected if possible Nanking as follows:

Paragraph 3 revised to read "The Government of China, when so requested by the Government of the United States of America, will cooperate, wherever appropriate, to further the objectives of paragraphs 1 and 2 of this Article in respect of materials originating outside of China". This change designed cover both good offices by receiving Government with third governments, and influenced by receiving Government on its nationals. Dept does not envisage useful application this paragraph, but uniformity desirable in view standard character [of] article.

Ambassador's signature [on] general bilateral and rural reconstruction agreements will not require full powers. (Embtel 1169 June 29 [28] ⁵⁸). Authorization being sent separate telegrams ⁵⁹ in accordance last paragraph Deptel 939 June 28. (Sent Nanking as 952. Repeated to Shanghai as 1174.)

MARSHALL

⁵⁵ The agreement was actually signed July 6, 1948; Treaties and Other International Acts Series No. 1795, or 62 Stat. (pt. 2) 2596.

⁵⁶ Treaties and Other International Acts Series No. 1783, or 62 Stat. (pt. 2) 2223; No. 1788, or 62 Stat. (pt. 2) 2407; and No. 1789, or 62 Stat. (pt. 2) 2421.

⁵⁷ Treaties and Other International Acts Series No. 1782, or 62 Stat. (pt. 2) 2199; and 1792, or 62 Stat. (pt. 2) 2514.

⁵⁸ Not printed.

⁵⁹ Telegrams Nos. 953 and 954, June 29, 8 p. m., neither printed.

893.50 Recovery/6-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 30, 1948—11 a. m.

[Received June 30—1:02 a. m.]

1181. Embassy greatly appreciates contents and speed Deptel 950, June 29. Embassy will await final communication with Lapham or Gilpatric prior closing. Only points Embassy now awaiting Department reply appear to be:

(1) Query contained Embtel 1172, June 28 regarding article II, paragraph 2.

(2) Possible NAC insistence hinted last sentence Deptel 930, June 26 regarding article V, paragraph 5.

(3) Query contained Embtel 1170, June 28.

(4) Receipt full powers.

Sent Department 1181, repeated Shanghai 550.

STUART

893.50 Recovery/6-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 30, 1948—3 p. m.

[Received June 30—3:37 a. m.]

1183. Embassy continuing efforts retain last sentence paragraph 1 of article IV and result further conference of negotiators this noon not unhopeful of success. (ReDeptel 950, June 29 and Embtel 1181, June 30.) Prior meeting, Embassy in communication Lapham and Gilpatric who feel strongly this point.

Please cable niact exact title to be used for agreement.

Sent Department 1183, repeated Shanghai 551.

STUART

893.50 Recovery/6-3048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1948—8 p. m.

962. Regarding Deptel 951, June 29 Dept wishes to be sure that it is clearly understood that authorization finalize language Art. IV made on assumption Emb would first consult Lapham as indicated, Emb 1178, June 29, and as borne out by ur 1183 June 30. You will recall (Deptels 815 May 29 and 892 June 17) that Dept, while unable perceive necessity second sentence para 1 Art. IV and doubtful wisdom insistence its inclusion, has nevertheless been willing accede Lapham's

recommendation in circumstances. Final resolution this problem therefore contingent Lapham's decision.

MARSHALL

893.50 Recovery/6-3048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1948—8 p. m.

963. Dept suggests deletion "United States of America" immediately following "in permitting" last sentence new para 2 Art. IV, and substitution word "this" for "the" immediately before "agreement" same sentence. New para 3 Art. IV : Order of reference Govts should be reversed for English text.

MARSHALL

893.50 Recovery/6-3048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1948—8 p. m.

965. Dept cannot ignore NAC recommendation Article V para 5 formerly Article VII (Embtel 1149 June 25 repeated Shanghai as 525 et seq.) ECA has agreed to resubmit question to NAC by telephone poll NAC members tomorrow (July 1). Dept will immediately communicate decision to Emb. Meanwhile Emb should not dispose finally this paragraph and should be prepared submit NAC language before conclusion negotiations.

MARSHALL

893.50 Recovery/7-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 1, 1948—11 a. m.

[Received July 1—2:54 a. m.]

1193. Sole point of substance or language unagreed with Foreign Office is second sentence paragraph 1, article IV. (Reference Deptel 950, June 29, Lapham's TOECA 75, June 30,⁶¹ Deptel 951, June 21 [29] and Embtel 1178, June 29.) Foreign Minister on instructions Executive Yuan adamant. Embassy has held firm but will reach decision final position to take today under authority granted in reftels after conference with Lapham and Gilpatric⁶² scheduled this morning.

Sent Department 1193, repeated Shanghai 554.

STUART

⁶¹ Latter not printed.

⁶² Donald S. Gilpatric was appointed Deputy Chief of the ECA China Mission on July 1 but continued concurrently as Attaché of the Consulate General at Shanghai.

893.50 Recovery/7-148: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 1, 1948—6 p. m.

[Received July 1—7:53 a. m.]

1197. Reference Deptel 962, June 30. Embassy did not fail to consult Lapham on June 30 as promised Embtel 1178, June 29. His views reflected in Embassy's continued unyielding stand re last sentence paragraph 1, article IV as reported in Embtel 1183, June 30.

Authorization delete crucial sentence which was transmitted to Embassy in Deptels 950 and 951 of June 29 in Embassy's belief had confirmed authority accorded Embassy in Deptel 938, June 28 to which no similar condition had been attached.

Embassy has been fully aware of necessity keeping Lapham closely informed progress negotiations both as matter of right and in interest of future harmonious relationship.

As result further discussions and in agreement between Lapham and Embassy today, Lapham this afternoon saw Prime Minister alone and reiterated to him vital importance attached to retention disputed sentence. Prime Minister gave no definitive answer but promised discuss with Foreign Minister. Foreign Minister has just now repeated refusal to accept.

Embassy unable to construe final sentence Deptel 962 otherwise than [than] as clear revocation authority Embassy had understood Department had conferred on it this matter successively in Deptels 938, 950 and 951. Obviously Embassy will seek and expect to arrive at amicable agreed decision with Lapham re conclusion or collapse of negotiation. Presumably Department is aware that if due to Lapham's possible decision insist on retention disputed sentence and Chinese continue refusal to accept, then there will be no agreement on or before July 3 and the responsibility for negotiating it or failing to negotiate it, as the case may be, will rest in fact on Lapham and not on the Secretary of State which latter Embassy understood was required by section 405 of the act.

Lapham has seen this cable.

Sent Department 1179; repeated Shanghai 561.

STUART

893.50 Recovery/7-248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 2, 1948—11 a. m.

[Received July 2—10:10 a. m.]

1200. Change in preamble to read "1948, and considering".

Last sentence article II, paragraph 2, "trade which have the effect

of interfering with the purposes and policies of this agreement" substituted for "trade which restrain . . . this agreement".

Changes article IV as recommended Deptel 963, June 30 accepted.

Sub-paragraph of article V, paragraph 2, to be designated as (a), (b), (c), and with end of first sentence paragraph 2 (a) amended by substitution "that" for "the" in phrase "the special account".

Article VI, paragraph 3, amended by substituting "America will cooperate, wherever appropriate to" for "America use its influence with its nationals to".

New paragraph 3 of article XII contained Deptel 933, June 28 inserted with Roman numbering of old paragraph 3 to new paragraph 4. Final paragraph same article amended to read "this blank day of July 1948, corresponding to the blank day of the blank month of the 37th year of the Republic of China".

Foreign Office agrees annex minutes 1, 5 and 6 language verbatim from Deptel 933, June 28. Text first paragraph exchange of notes contained Deptel 922, June 24 amended to read "I have the honor to refer to the conversations which have recently taken place between representatives of our two Governments on the conclusion of a bilateral agreement relative to the American Aid to China and to confirm the understanding reached as a result of these conversations". ReDeptel 955, June 29,⁶³ Embassy will start telegraphing restricted in sections articles as agreed other than the preamble and articles I, VII, VIII, IX, X and XI, all of which are verbatim (except change preamble indicated above) as contained in Deptels 921, June 24, or 927, June 25. Likewise Embassy will omit repeat of article III which runs unchanged from Deptel 923, June 24, up to penultimate word "article" of paragraph 3 with which word article as agreed now ends.

Sent Department 1200, repeated Shanghai 562.

STUART

893.50 Recovery/7-248 : Telegram

The Ambasador in China (Stuart) to the Secretary of State

NANKING, July 2, 1948—noon.

[Received July 2—5:24 a. m.]

1202. To Department and ECA. Reference Embtel 1197, July 1.

1. Having agreed with Foreign Minister to report Chinese Government's continued refusal, as reported reftel, to accept second sentence paragraph 1, article IV, it was agreed by Lapham and Embassy to allow Chinese to ponder impasse overnight. Agreed further that in absence Foreign Office capitulation this morning, Embassy

⁶³ Not printed.

should inform Foreign Office that US Government reluctantly accepted deletion. This has been done and arrangements now under way to sign agreement Saturday, July 3, Nanking time.

2. *Aide-mémoire* confirming our acceptance of deletion critical sentence stresses 3 points. After stating that decision was left to Embassy in consultation Lapham (reference Deptel 962, June 30), Embassy bases its actions on undertaking in disputed sentence being implicit in preceding sentence, which position it has adhered to throughout negotiations. Embassy emphasizes that overriding consideration was strength of representations by Chinese repeatedly made to Embassy and Ambassador regarding political reasons for non-acceptability this sentence. Lapham is quoted as associating himself with Embassy position in behalf ECA and in belief that importance ECA attached to specific understanding of ECA intent of procedure under this article in event jointly agreed distribution plans not carried out had been made clear by Lapham to President Executive Yuan and to Foreign Minister by Embassy even though it was not being set forth in bilateral agreement. Gist foregoing communicated Cleveland by Merchant in phone call for Lapham taken by him.

Sent Department 1202; repeated Shanghai 564.

STUART

893.50 Recovery/6-2548: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 2, 1948—3 p. m.

973. NAC agencies including ECA by unanimous informal vote today agreed to previous NAC recommendation re Article VII (new Article V) para 5 (Embtel 1149 June 25 *et seq.*) with following amendment interpolated between "The Government of China" and "shall hold the remaining balance": "in agreement with the Government of the United States". Emb should therefore substitute NAC language transmitted Deptel 900 June 19 including this amendment (Note Dept comment Deptel 920 June 24). Dept anticipates no Chinese objection new language this section.

MARSHALL

893.50 Recovery/7-248: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 2, 1948—7 p. m.

979. 1. Dept gratified timely solution Article IV (Embtel 1202 July 2). This action, together with final decision Article V, para-

graph 5, transmitted earlier telegram, clears the decks on all points of substance.

2. Please inform Dept immediately whether or not revision Article V, or drafting comments below, necessitates any significant postponement signature, which we now understand set for 3:15 p. m. July 3, Nanking time.

3. Following comments re text thus far received:

(a) Must "United States of America" be retained immediately preceeding "expendable commodities" in Article IV, paragraph 2, third sentence? (Embtel 1204 July 2).⁶⁴

(b) Article VI (Embtel 1216 July 2⁶⁴) Phrase "including the promotion of the increased production of such materials within China, and the removal of any hindrances to the transfer of such materials to the United States of America" is missing at the end of second sentence, paragraph 1. Also, in paragraph 3 word "objectives" should be "purposes". Numerous commas missing in text Embtel 1216, absence of which makes difficult reading.

(c) Understand from telephone conversation Cleveland—Merchant, referred to Embtel 1202 July 2, that Embassy intends include only paragraphs 1, 5 and 6 in Annex transmitted Deptel 933 June 28. It is essential from point of view U. S. that paragraph 7 re Senate ratification also be included.

MARSHALL

893.50 Recovery/7-248: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 2, 1948—8 p. m.

984. 1. Your reference (Embtel 1200 July 2) re Article II paragraph 2 appears garbled. This paragraph should read as follows:

"2. The Government of China will take the measures which it deems appropriate to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which restrain competition, limit access to markets or foster monopolistic control whenever such practices or arrangements have the effect of interfering with the purposes and policies of this Agreement."

2. Deletion Japan and southern Korea in exchange MFN notes requires that first numbered paragraph be changed to read as follows:

"1. For such time as the Government of the United States of America participates in the occupation or control of any areas in western Germany or the Free Territory of Trieste, the Government of China will apply to the merchandise trade of such areas the provisions of the General Agreement on Tariffs and Trade dated October 30, 1947,⁶⁵

⁶⁴ Not printed.

⁶⁵ Treaties and Other International Acts Series No. 1700, or 61 Stat. pts. 5 and 6.

as now or hereafter amended, relating to most-favored-nation treatment."

3. Introductory sentence Ambassador's note (Embtel 1200 July 2) would be improved by changing latter half of sentence to read "on the conclusion of a bilateral agreement relative to the extension of aid to China by my Government, and to confirm the understanding reached as a result of these conversations, as follows:"

4. Text Article V (Embtel 1217 July 2⁶⁶) omits word "two" in paragraph 2(b) immediately preceding "governments dated April 30, 1948."

Please confirm that MFN notes being signed simultaneously agree-ment.

MARSHALL

893.50 Recovery/7-348: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 3, 1948—11 a. m.

[Received July 3—12:11 a. m.]

1220. Deptel 973, July 2 received Embassy code room July 3, 8 a. m. and immediately decoded.

Embassy regrets deeply physical impossibility incorporating this change prior signing 3:15 this afternoon. In explaining to NAC, please point out Chinese official copy text hand engrossed requiring hours labor apart from difficulties changing all copies, English and Chinese, press release texts, including these already issued Shanghai.

Embassy had relied in closing with paragraph 5 unchanged on its statement re article 5 in Embtel 1189, June 30⁶⁷ and on understanding received by Merchant in Cleveland telephone conversation noon July 2 that Embassy could assume NAC would not insist on its amendment. Lapham fully concurs this telegram.

STUART

893.50 Recovery/7-348: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 3, 1948—1 p. m.

[Received July 3—2:43 a. m.]

1221. ReDeptel 979, July 2, 7 p. m.

1. Re paragraph 2, impossible revise article V (see Embtel 1220,

⁶⁶ Not printed.

⁶⁷ Not printed; this telegram indicated that article V would stand "in absence [of] timely contrary word from Department." (893:50 Recovery/6-3048)

July 3, 11 a. m.). To attempt to do so would postpone signing after July 3.

2. Re paragraph 3:

(a) Norm [*Term*] "United States of America" stricken from article IV;

(b) Phrase cited at end second sentence, paragraph 1, article VI missing from text. Further "objectives" appear our text.

(c) Paragraph 7 of annex not in text, but will be handled by exchange of notes to be published.

STUART

893.50 Recovery/7-348: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 3, 1948—4 p. m.

[Received July 3—4:09 a. m.]

1223. For Department and ECA. I signed Bilateral Aid Agreement⁶⁸ and MFN notes with Foreign Minister at 3:15 this afternoon Nanking time (reference Embtel 1221 of July 3, 1 p. m.).

STUART

893.50 Recovery/7-348: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 3, 1948.

[Received July 3—7:20 a. m.]

1224. Following is Ambassador's statement at signing of China Aid Agreement, 3:15 p. m., July 3:

"It is to me a source of great satisfaction, as I know it is to the American people, that an agreement has been signed today between the United States and China whereby the United States agrees to provide assistance to China in its struggle to regain the normal life which was destroyed by years of devastating war. The people of the United States are fully aware of the tremendous sacrifices made by China in our common struggle against Japan. The people of the US are fully aware that there can be no prospect of a just and lasting peace as long as there is violence in any part of the world or as long as any nation is denied an opportunity for earning a decent livelihood of its own and thereby enabled to take a self-respecting part in the affairs of the world. It is the desire of the people of the US to help the people of China help themselves achieve this position of peace, prosperity and human dignity. It is also our earnest wish that this agreement will be another powerful and lasting link in the chain of friendship and co-operation which have so long been the most distinguishing marks of the relations between the US and China."

STUART

⁶⁸ Treaties and Other International Acts Series No. 1837, or 62 Stat. (pt. 3) 2945.

S93.50 Recovery/7-548:Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 5, 1948—6 p. m.
[Received July 5—12:31 a. m.]

1226. Following odds and ends re bilateral negotiation: Re paragraph 1, Deptel 984, July 2, text quoted therein appears in agreement verbatim. It was quoted this form Embtel 1173 [1172], June 28 and approved by Department in Deptel 952, June 29, paragraph 1.

Difference in time, calligraphy, advance preparations for press releases et cetera were understandably responsible for Foreign Office complete inability to accept language and other changes contained Deptels 979, July 2; 984, July 2, and 973, July 2. Moreover in connection NAC requested change Embassy relied not only on its necessary stipulation of "timely contrary word" in Embtel 1189, June 30⁶⁹ but also on opening language last sentence Deptel 965, June 30 which read "meanwhile Embassy should [not] dispose⁷⁰ finally this paragraph et cetera" plus apparent misunderstanding arising here Cleveland and Merchant July 2 telephone conversation.

Re paragraph 3-[c] Deptel 979, July 2 notes for publication dated July 3 being exchanged with Foreign Minister. Upon exchange text confirmation will be telegraphed.⁷¹ Embassy regrets its failure recognize vitality this particular minute which it interpreted as in nature unilateral statement to Chinese re our constitutional procedures rather than matter involving Chinese agreement or undertaking.

Embassy likewise exchanging notes with Foreign Office re Ambassador's and Foreign Minister's authorization to sign which points were confirmed prior to signature.

Embassy believes interpretation sentence 1, paragraph 1, article IV to comprehend powers spelled out in deleted sentence 2 of same paragraph was covered in course negotiations and confirmed in Lapham's conference with Prime Minister July 1. In light this fact and necessity securing for publication any written assurances led us to leave matter on basis oral understanding confirmed by *aide-mémoire* to Foreign Office dated July 2.

Similarly Embassy deemed necessary retain on oral basis assurances re deleted subparagraphs *a*, *b*, *c* of paragraph 3 article III.

Full text agreement, annexed minutes, notes exchanged, and *aide-mémoires* being air pouched.⁷²

Sent Department 1226, repeated Shanghai 579.

STUART

⁶⁹ Not printed; see footnote 67, p. 597.

⁷⁰ Embassy file copy of telegram No. 965 does not contain the word "not" before "dispose".

⁷¹ Telegram No. 1313, July 20, 2 p. m., not printed. For text of notes, see *Treaties and Other International Acts Series No. 1837*, or 62 Stat. (pt. 3) 2979.

⁷² Transmitted in despatch No. 345, August 11, not printed.

[In telegrams Nos. 992, 993, and 994, July 7, 4 p. m. (893.50 Recovery/7-748, 7-348), the Department requested the Embassy to secure various amendments to the agreement through an exchange of notes with the Chinese Foreign Office. The most significant change was based on the use of the phraseology in article V, paragraph 5, adopted by the National Advisory Council, which was set forth in the Department's telegrams Nos. 900, June 19, page 554, and 973, July 2, page 595. In telegram No. 1322, July 20, 6 p. m. (893.50 Recovery/7-2048), the Embassy reported the Foreign Office's view that the amendments were unnecessary in that they involved only language changes and no changes in substance. The Embassy recommended that the agreement stand as signed.]

893.50 Recovery/7-2048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 23, 1948—7 p. m.

1063. In view strong FonOff objections Emb authorized drop bilateral amendment negotiations (ReEmbtel 1322, July 20⁷³). Dept considers it unfortunate Emb unable obtain inclusion these changes but understands fully difficulties involved.

Re para 5 reftel and para 2 Deptel 992, July 7.⁷³ Specific Chigovt commitment promote increased production strategic materials remove hindrances their transfer still highly desirable in view of legislative history Art. VI, possibility future difficulties its implementation, and great interest Munitions Board in omitted language. These commitments perhaps generally covered by third sentence para 1 this Art. and para 2, but nonetheless best if possible obtain definite understanding now on interpretation this para in absence formal amendment. USGovt interprets "specific measures necessary to carry out the provisions of this paragraph" as including "the promotion of the increased production of such materials within China, and the removal of any hindrances to the transfer of such materials to the USA". FonOff written concurrence this understanding preferable but if Emb believes FonOff likely object exchange of notes this subject, USGovt interpretation should be presented in form *aide-mémoire* for purposes of record.

Forward English and Chinese texts signed original bilateral agreement earliest possible date.

MARSHALL

⁷³ See bracketed note, *supra*.

893.50 Recovery/7-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 29, 1948—midnight.

[Received July 29—4:49 a. m.]

1384. ReDeptel 1063, July 23, repeated Shanghai 1347, received July 25. We delivered to and discussed with Foreign Office July 27 *aide-mémoire* containing following final sentence:

“Accordingly the Embassy would appreciate confirmation from the Ministry of Foreign Affairs that it concurs in the interpretation of the US Govt that ‘specific measures as may be necessary to carry out the provisions of this paragraph’ which sentence appears in paragraph 1 of article VI of the agreement, comprehends the promotion of the increased production of such materials in China and the removal of any hinderance to the transfer of such materials to the US of America”.

Foreign Office has now given us replying *aide-mémoire* stating that it concurs in above interpretation. Embassy *aide-mémoire* was confidential but no objection seen to transmission texts to interested agencies including Munitions Board.

Re reftel final sentence, signed originals being air-pouched July 30, delay having been caused by difficulties photostating for Embassy and ECA records here.

Sent Dept, repeated Shanghai 665.

STUART

III. EXCHANGE OF NOTES BY THE UNITED STATES AND CHINA ON THE ESTABLISHMENT OF THE JOINT COMMISSION ON RURAL RECONSTRUCTION IN CHINA, AUGUST 5, 1948

893.50 Recovery/5-2848 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 28, 1948—7 p. m.

810. Text draft bilateral agreement rural reconstruction follows ([re] Deptel 811 ⁷⁴):

Preamble—The Government of the United States of America and the Government of China:

Recognizing the importance of reconstruction in rural areas of China to the welfare of the Chinese people and considering the long record of close collaboration between China and the United States in this field, the most recent instance of which was the joint China-United States Agricultural Mission in 1946; ⁷⁵ and

⁷⁴ *Infra*.⁷⁵ For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

Recognizing that reconstruction in rural areas of China should have as its purpose the improvement of economic, social and cultural conditions in those areas; and

Recognizing the intention and authority embodied in Section 407 of the China Aid Act of 1948 ⁷⁶ (hereinafter referred to as the Act); and

Recognizing that this agreement on rural reconstruction is predicated upon the conclusion of a bilateral agreement as set forth in Section 405 of the Act;

Have agreed as follows:

Article I: There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission), to be composed of two citizens of the United States appointed by the President of the United States and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as Chairman.

Article II: The functions and authority of the Commission shall, subject to the direction and control of the Administrator for Economic Cooperation,⁷⁷ and subject to the other provisions of the Act, be as follows:

(1) To formulate, in consultation with the Governments of the United States and China, and to carry out through appropriate Chinese Government, international or private agencies in China a coordinated program for reconstruction in rural areas of China (hereinafter referred to as the program) which shall further the purposes set forth in the Preamble of this Agreement.

(2) To conclude arrangements with the agencies referred to in paragraph (1) of this Article establishing a basis for their cooperation.

(3) To recommend to the Governments of the United States and China, within the limits prescribed by the Act, the allocation of funds and other assistance to the program, and to recommend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the program.

(4) To establish standards of performance for implementation of the program and to maintain a constant supervision of all phases of the program, with authority to recommend changes in or stoppage of any phase of the program.

(5) To consult with cooperating agencies concerning the qualifications, types and numbers of personnel to be used by such agencies in carrying out their responsibilities in the program.

(6) To appoint a citizen of China as Executive Director for the Commission and a citizen of the United States as Associate Director

⁷⁶ Approved April 3, 1948; 62 Stat. 158.

⁷⁷ Paul G. Hoffman.

and to appoint other necessary administrative staff. The appointment of key personnel of the administrative staff shall be governed, insofar as is practicable and possible, by the principle of having an American associate for each Chinese chief of an administrative unit and a Chinese associate for each American chief of such a unit. Salaries, expenses of travel and other expenses incident to the administrative functions of the Commission itself shall be paid from funds made available under Section 407(b) of the Act.

Article III: (1) An amount not to exceed the equivalent of 10 per centum of the funds made available under subsection (a) of Section 404 of the Act may be allocated toward the support of the program. Such amount may be in United States dollars, in Chinese currency deposited by the Government of China in a special account in the Central Bank of China in amounts commensurate with the United States dollar aid extended under subsection (a) of Section 404 of the Act, or both.

(2) All supplies imported into China for use in the program shall be free of fiscal charges, including customs duties, imposed by the Government of China.

(3) Assistance furnished by the Government of the United States under Section 407 of the Act and pursuant to this Agreement shall not be construed as an express or implied assumption by the Government of the United States of any responsibility for making any further contributions to carry out the purposes of Section 407 of the Act or of this Agreement.

Article IV: The Government of China undertakes:

(1) To afford to the implementation of the program that full weight of Government support, recognizing the importance of the program as one of the essential means of achieving objectives in which the United States and China unite in giving and accepting, respectively, aid provided under the Act.

(2) To authorize and direct cooperating agencies of the Government of China to give the necessary assistance and to facilitate action making effective such adjustments in their program as are essential to the success of their undertakings under the program.

(3) To make available toward the support of undertakings of its cooperating agencies in the program funds and other resources necessary to carry out their responsibilities under the program.

(4) To assure the full cooperation and support of the Provincial Governments and local officials in areas affected by the program.

Article V: (1) The Government of China agrees to grant to the United States members and personnel of the Commission the same privileges and immunities as are enjoyed by the personnel of the Embassy of the United States of America in China.

(2) The Government of China undertakes to extend to the Commission full cooperation, including the provision of information and facilities for observation and review necessary to the effective carrying out of this Agreement.

Article VI: (1) The Commission shall publish in China and transmit to the Government of the United States and the Government of China, in such form and at such times as may be requested by either of the two Governments, full statements of operations under this Agreement, including a statement on the use of funds, supplies and services received thereunder, and will transmit to the two Governments any other matter pertinent to operations under the Agreement as requested by either of the Governments.

(2) The Government of China will keep the people of China fully informed of the intended purposes and scope of the program under this Agreement and of the progress achieved by the Commission in implementing the program and it will keep the people of China continuously advised of the nature and extent of assistance furnished by the Government of the United States pursuant to this Agreement.

Article VII: The Government of the United States and the Government of China will consult with respect to problems incident to the interpretation and implementation of this Agreement whenever either of the two Governments considers such action appropriate.

Article VIII: A copy of this Agreement certified by the two Governments shall be deposited with the Secretary-General of the United Nations, who is authorized to effect registration thereof.

Article IX: This Agreement may be amended by mutual agreement between the two contracting parties.

Article X: (1) The Government of the United States of America reserves the right at any time to terminate or suspend its assistance, or any part thereof, provided under this Agreement, and also reserves the right at any time to withdraw the United States members of the Commission.

(2) This Agreement shall take effect on the date of its signature. Subject to the provisions of paragraph (1) of this Article, it shall remain in force until June 30, 1949 or until the date of termination of the Agreement between the two Governments⁷⁸ entered into pursuant to Section 405 of the Act, whichever is the later date.

IN WITNESS WHEREOF the respective representatives, duly authorized for the purpose, have signed the present Agreement.

DONE at Nanking, in duplicate, in the English and Chinese languages, both texts authentic, this day of June, 1948.

LOVETT

⁷⁸ General Bilateral Agreement signed July 3, 1948; for correspondence concerning the negotiation of this agreement, see pp. 506 ff.

893.50 Recovery/5-2848: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 28, 1948—7 p. m.

811. Text bilateral agreement rural reconstruction agreed upon by Dept and ECA ⁷⁹ being forwarded separate telegram ⁸⁰ for Emb comment prior presentation Chigovt. Moyer ⁸¹ [of] Dept Agriculture has participated discussions this agreement and believes draft meets necessary needs.

Thinking here that central emphasis rural reconstruction program should be placed development coordinated extension-type program among rural population with adequate attention concurrently to other activities such as research and training. In detailed planning Joint Commission would draw on Sino-US Agricultural Mission recommendations, experience and programs Chigovt, international and private agencies, including Mass Education Movement.⁸² Coordinated extension-type program should be initiated on scale consistent with what can be done soundly, probably in group of hsien in each of several provinces where factors most favorable for success.

Chigovt may have in mind general supervisory type Commission with Chinese members selected basis prestige [and] name rather than qualifications [to] plan program, which would establish boards and committees formulate recommendations for its consideration and action and would appoint executive officers carry out approved actions. Alternative would be working Commission which would itself formulate plans and as far as possible use own members as executive officers. We consider working Commission more desirable since would provide quicker action and avoid loss involved in bureaucratic handling program. This would place program under those qualified plan and implement it. Ultimate control would, of course, be exercised by Administrator. If Emb agrees, it should emphasize to Chigovt during negotiation greatest care be taken choose as members Commission most highly qualified persons available.

It would be expected that program would be worked out to provide cooperation with projects under Fulbright Act ⁸³ and Smith-Mundt Act,⁸⁴ thus preventing duplication and providing assistance under China Aid Act rural reconstruction program for long range Smith-Mundt program.

⁷⁹ Economic Cooperation Administration.

⁸⁰ *Supra*.

⁸¹ Raymond T. Moyer.

⁸² Latter movement, headed by Y. C. James Yen, called for eradication of illiteracy, poverty, disease, and misgovernment in China.

⁸³ Approved August 1, 1946; 60 Stat. 754.

⁸⁴ Approved January 27, 1948; 62 Stat. 6.

Attention should be given to problem opposition to program from extreme right and left and it appears desirable program be identified clearly as program enjoying full support Chigovt, that support leading public figures be enlisted and that wide publicity be given intended purpose and scope program.

Moyer now planning depart China with ECA Reconstruction Survey Group ⁸⁵ June 4 and will be available assist Emb in negotiation this agreement.

Emb will note that Article V para 1 re privileges and immunities differs from language general bilateral [agreement] under Sec 405 of Act. Firm decision re language this point not yet made but both agreements should in final form have same wording.

Emb comments draft bilateral rural reconstruction agreement requested soonest possible. If Emb has no proposed revisions, it should present draft agreement to Chigovt at once for study and translation and begin negotiation earliest possible. Opening negotiation this agreement should not be delayed by negotiation general bilateral under Section 405 of Act nor should it await Moyer's arrival.

LOVETT

840.50 Recovery/6-248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 2, 1948—1 p. m.

[Received June 2—6: 58 a. m.]

987. For Department and ECA. Embassy approves draft bilateral agreement on rural reconstruction (reDeptels 810 and 811, both May 28, 7 p. m.) with recommendation paragraph (2) of article III be revised as follows:

"All supplies imported into China for use in the program shall be free of fiscal charges, including customs duties, conservancy dues and other charges normally imposed by the Government of China on similar supplies which are imported through regular commercial channels. Additionally, the Government of China will afford expeditious clearance by the Chinese customs of supplies imported for use in the program and of the official and personal effects of the American members and personnel of the commission."

In this connection reference made Embtel 985, June 2, 11 a. m.,⁸⁶ repeated Shanghai as 436. If Department approves revision, please

⁸⁵ The Reconstruction Survey Mission was sent to China to recommend the amount of funds to be allocated to reconstruction projects under the China Aid Act of 1948. The director of the mission was Charles L. Stillman.

⁸⁶ Not printed; it recommended a top level adviser under the China Aid Program to assist the Chinese in simplifying customs procedures.

instruct soonest as we plan present draft of agreement to Foreign Office June 3.

Separate comments, if any, by Dawson⁸⁷ and Gilpatric,⁸⁸ both not available in Shanghai or Nanking for consultation, will be transmitted separately.

Sent Department 987, repeated Shanghai 438.

STUART

893.50 Recovery/6-248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 3, 1948—11 a. m.

828. Suggested revision para (2) Art III rural reconstruction draft agreement (Embtel 987 Jun 2) approved by Dept and ECA with following exception: Delete last part final sentence this para beginning "and of the official". This matter will be covered in para (1) Art V.

Emb authorized present FonOff draft agreement as revised above.

MARSHALL

893.50 Recovery/6-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 7, 1948—5 p. m.

[Received June 7—9:05 a. m.]

1022. To Department and ECA. Embassy June 3 presented FonOff draft rural reconstruction agreement with paragraph (2) article III given Embtel 987, June 2, 1 p.m. (reDeptel 828, June 3, 11 a. m.). This done on assumption Department would approve suggested revision.

Unless intended expand paragraph (1) article V specifically to cover expeditious clearance for official and personal effects of American members and personnel of commission, Embassy strongly advises suggested version paragraph (2) article III be retained inasmuch as our experience indicates mere granting by Chinese Government to US members and personnel of commission "same privileges and immunities as are enjoyed by the personnel of the Embassy" not necessarily sufficient to guarantee expeditious customs clearance.

Draft presented FonOff contained Embassy revision first part article IV as follows:

⁸⁷ Owen L. Dawson, Agricultural Attaché in China.

⁸⁸ Donald S. Gilpatric, Attaché at the Shanghai Consulate General and Director of the China Relief Mission.

"In recognition of the importance of the program as one of the essential means of achieving the objectives in which the Governments of the US and China unite in seeking under the Act, the Government of China undertakes:

(1) To afford to the execution of the program the full weight of its support;" with remainder of article as given Deptel 810, May 28, 7 p. m.

Language originally used paragraph (1) article IV appeared needlessly cumbersome. Department approval of change requested.

Sent Department 1022, repeated Shanghai 453.

STUART

103.ECA/6-1048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 10, 1948—noon.

[Received June 10—4:29 a. m.]

1052. For ECA and Agriculture. Embassy plans submit shortly to Foreign Office second rural reconstruction agreement incorporating strengthening changes agreed by Lapham,⁸⁹ Moyer and Dawson. Meanwhile Foreign Office states that it desires conclude agreement in form exchange of letters, thereby avoiding submission for approval to Legislative [Yuan] which would be "inconvenient". Since exchange of letters would be fully binding and being unaware existence any requirement in China Aid Act of 1948 specifying form of agreement, Embassy and Lapham recommend acceptance Chinese request regarding form. Please instruct urgently.

STUART

893.50 Recovery/6-748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 13, 1948—1 p. m.

875. Suggested revision draft rural reconstruction agreement Embtel 1022 Jun 7 para (2) Art III seems unnecessary and undesirable. Para (1) Art V has now been changed to read as follows: "The Govt of China agrees to consider the US members and personnel of the Commission as a part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to the Embassy of the United States of America and its personnel in China". This change being made to conform with recent revision master general aid agreement and you will be informed of similar change in general China bilateral in separate telegram.⁹⁰

⁸⁹ Roger D. Lapham, Chief of the ECA Mission in China.

⁹⁰ Telegram No. 873, June 11, 7 p. m., p. 548; telegram No. 875 was drafted on June 11.

Since US members and personnel Joint Commission would thus have same status Emb personnel re immunities and privileges, there appears to be no valid reason for suggested revision to provide expeditious customs clearance their effects. If such revision necessary in rural reconstruction agreement, same provision would also be required general China bilateral.

Emb suggested revision first part Art. IV, including para (1), approved. (Sent Nanking as 875, repeated Shanghai as 1069.)

It is contemplated Dept will effect registration with UN Secretariat rural reconstruction agreement whether in form exchange notes or bilateral agreement. This would make unnecessary registration by ChiGovt and thus relieve it of its obligations re registration under UN Charter. If Chinese inquire re this point, you may inform them along foregoing lines.

Embtel 1052 Jun 10 being made subject separate telegram.⁹¹

MARSHALL

893.50 Recovery/6-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 14, 1948—7 p. m.

878. If exchange notes used for rural reconstruction agreement as suggested Embtel 1052 Jun 10, record must show clearly reasons for change and legal opinion such change does not affect binding character ChiGovt undertakings. It is opinion Dept and ECA [that] form rural reconstruction agreement should not be changed unless clearly established no difference under Chinese constitutional procedure between ratified agreement and unratified exchange notes. In case ERP⁹² countries no exchange notes being accepted as agreement under ECA Act and departure in form must, therefore, have sound legal basis.

Please indicate meaning FonOff statement submission to Legislative Yuan "inconvenient". Success Joint Commission will depend largely upon degree effective support and participation ChiGovt and it is thus important have scope and purpose Commission fully understood and agreed to by ChiGovt as whole.

If Emb presents second rural reconstruction agreement to FonOff without prior submission to Dept and ECA, as indicated Embtel 1052, Jun 10, Dept assumes Emb will make clear to FonOff new draft subject possible revision by Dept and ECA.

MARSHALL

⁹¹ *Infra.*

⁹² European Recovery Program.

893.50 Recovery/6-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 15, 1948—1 p. m.

[Received June 15—4:16 a. m.]

1087. For Dept, ECA and Agriculture. Subject: Rural Reconstruction Commission Agreement. (Recent references Deptel 828, June 3, 11 a. m., Embtel 1022, June 7, 5 p. m. and Embtel 1052, June 10, noon).

On June 10 Foreign Office explained to Embassy Chinese Govt unable to accept language in draft agreement submitted June 3 which cites in article II Commission is subject to direction and control of the administrator and then proceeds to provide that it will "formulate" and "carry out" a coordinated program for reconstruction. Foreign Office pointed out with considerable logic that this places Chinese Govt in position of being creature of Mr. Hoffman insofar as rural reconstruction is concerned.

Lapham and Embassy agree that draft should be changed to meet Chinese legitimate point of sovereignty. Accordingly approval is requested for following redraft first paragraph article II which would then read as follows:

"The functions and authority of the Commission shall, subject to the provisions of the act, and in particular article 407 thereof, be as follows:

(1) To formulate in consultation with the Govt of US and China and recommend to the Chinese Govt the execution, through appropriate Chinese Govt international or private agencies in China of a coordinated program, et cetera." Balance of article unchanged.

Approval is also requested for insertion into draft of following new article IV, subsequent articles to be appropriately renumbered.

"Article IV: In formulating its program the Commission shall have authority, in consultation with the appropriate agency of the Govt of China, to consider and make recommendations on the following:

(1) A coordinated extension-type program in agriculture, home demonstration, health and education, for initiation in a selected group of hsien in several provinces to include a limited number of projects suited to conditions of the areas where the program is developed, in such fields as agricultural production, marketing, credit, irrigation, home and community industries, nutrition, sanitation and education of a type which while [*will*] facilitate the promotion of projects being undertaken in the program.

(2) A definite progressive program of enforcement, in areas where the program is carried out, of the pertinent features of existing legislation and decrees related to land tenure, and of efforts to collect land taxes on a fair and equitable basis.

(3) Progressive steps in a program to survey, register and appraise the agricultural land in areas where this program is carried out.

(4) Progressive steps in a program to carry out the provisions of the constitution relating to the local government's system of the hsien in areas where this program is carried out.

(5) Subsidiary projects in research training and manufacture, to be carried out in suitable locations to provide information, personnel and materials required by the program.

(6) A program to put into effect over a wider area than provided for in the coordinated extension type program, and of the above projects which can be developed soundly on a larger scale, of which examples might be the multiplication and distribution of improved seeds, the control of rinderpest of cattle, the construction of irrigation and drainage facilities and the introduction of health and sanitation measures.

(7) Related measures, in line with the general objectives of this program.

(8) The distribution of assistance in this program, on the principle of giving due attention to strengthening rural improvement in areas where selected projects can be progressively developed and where their development will contribute most effectively to the achievement of purposes for which this program is undertaken, but that the principle of distributing aid will not be controlled by proportionate or geographic consideration per se."

Beyond statement of Foreign Office on article II reported above, Embassy has not received additional comments from Chinese stated to be forthcoming. Embassy believes requested re-draft of article II will be acceptable to Chinese.

Instructions will also be appreciated re points raised in Embtels 1022 and 1052.

Sent Dept 1087, repeated Shanghai 482.

STUART

893.50 Recovery/6-1548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 22, 1948—6 p. m.

907. Reurtel 1087 June 15, subject Rural Reconstruction Agreement. In view of fact that China Aid Act 1948 expressly provides that Rural Reconstruction Commission shall, subject to the direction and control of the Administrator, formulate and carry out a program for reconstruction in rural area of China; and since ECA has no authority to proceed with rural reconstruction programs except pursuant to terms of Act, Dept and ECA are concerned about change proposed ureftel. In this connection, refer to Deptel 920 of May 20 [15] to Shanghai,⁹³ repeated Nanking as 737. As regards question of sovereignty involved, believe act of making an agreement is itself an exercise of sovereignty and not abandonment of it.

⁹³ *Ante*, p. 505.

If Embassy is certain, as a matter of law, that the language suggested reftel means the same thing as language in original draft Rural Reconstruction Agreement, and if Embassy believes change in language at this time is not prejudicial to such an interpretation, and if Chinese thoroughly understand this point, then Dept and ECA would be agreeable to substitution of phrase "subject to the provisions of the Act, and in particular Section 407 thereof" for the phrase "subject to the direction and control of the Administrator for Economic Cooperation and subject to the other provisions of the Act".

Your proposed language para 1 of Art. 2 is not acceptable since it indicates execution of Commission programs can take place only by and through Chinese Govt. Suggest reversion to original language this para, which also seems more consistent with general line of policy in TOECA 31,⁹⁴ with which Embassy associated itself in Embtel 1074 June 12.⁹⁵

Addition of specific elements of program you proposed in new Art. 4 seem excellent and are approved.

While it is realized that new suggested Art IV lists items "to consider and make recommendations on", Dept wishes point out para (4) this Art might lead to Commission concerning itself with problems enactment hsien self-govt laws, rights initiative and referendum and elections. If Commission itself is to "formulate and carry out" program as provided in Act, para (4) open to question and might cause Chinese resentment. This matter would seem to be more logically one for inclusion in corollary discussions with Chi Govt to obtain desired undertakings without having it included in bilateral.

Following additional changes in Rural Reconstruction Agreement necessary to make it conform with master ERP agreement and general China bilateral:

1. Art V, para (1), should read: "The Govt of China will, upon appropriate notification from the Ambassador of the United States of America in China, consider the United States members and personnel of the Commission as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank."

2. Art VIII should read: "This Agreement shall be registered with the Secretary-General of the United Nations." If, however, rural reconstruction agreement is to take form exchange notes, this article re-registration with UN unnecessary and should be deleted and Chi Govt should be informed reDeptel 875 June 13 that Dept will effect necessary registration.

Repeated AmConsul, Shanghai for Lapham from ECA as ECATO.⁹⁶
MARSHALL

⁹⁴ June 11, from the Consul at Shanghai, p. 546; the symbol "TOECA" was used by the ECA to identify telegrams sent by its field establishments to its Headquarters Office.

⁹⁵ *Ante*, p. 549.

⁹⁶ Symbol used to designate ECA headquarters messages to field establishments.

893.50 Recovery/6-2448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 24, 1948—6 p. m.

[Received 11:10 p. m.]

1138. Is Embassy's assumption correct that conclusion rural reconstruction agreement is not required prior to July 3? (Reference Deptel 907, June 22, 6 p. m. received June 24, repeated Shanghai 1115). Apart from fact Moyer absent in South China with Stillman group until June 30, complications now visible negotiating this agreement render it desirable in Embassy's opinion to lay it aside until bilateral is concluded. In light unacceptability to Department and ECA of substitute language proposed by Embassy for paragraph 1 of article II, real possibility believed to exist that conclusion of any agreement with Chinese on rural reconstruction commission will prove impossible. Weak position of Wong Wen-hao's Cabinet coupled with Legislative Yuan's avid search for any clubs with which to beat him gives rise to this uncertainty. Moreover one must admit that in drafting section 407 Congress overlooked [in] choice of language traditional and understandable Chinese sensitivity on subject of sovereignty.

Legislative Yuan attitude described above underlay Foreign Office's use of word "inconvenient" reported in Embtel 1052 June 10 and queried in Deptel 878 June 14.

Embassy has made clear throughout [that] draft agreement submitted to Foreign Office continuously subject to modification and change by us in language and substance. [If] feasible defer rural reconstruction negotiation until after bilateral concluded and if latter agreeable to Legislative Yuan in form of executive agreement, then question may not arise of altering rural reconstruction form to exchange of letters. Regarding legality of latter, Foreign Office has orally assured me that exchange of letters is equally binding on Chinese Government as an agreement in form we originally proposed. Moreover Foreign Office has promised us statement this effect in writing. However, Embassy holds some doubts as to ability of anyone at this early stage of Chinese operation under new constitution as yet legally unconstrained to give categoric assurance on this point.

Sent Department 1138, repeated Shanghai 521.

STUART

893.50 Recovery/6-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 28, 1948—6 p. m.

935. Assumption conclusion rural recon agreement not required prior July 3 correct (Embtel 1138 Jun 24).

In view circumstances set forth Embreftel, Dept and ECA willing agree following revised Art II:

"The functions and authority of the Commission shall, subject to the provisions of the Act, and in particular Section 407 thereof, be as follows:

(1) To formulate, in consultation with and subject to the approval of the Govts of the US and China, and to carry out through appropriate Chi Govt, international or private agencies in China a coordinated program" etc.

Not believed Congress intended program should be formulated without regard wishes Chi Govt. Provision for Chinese majority Commission gave assurance program would have Chinese approval. By providing that program have prior agreement both Govts, foregoing language should meet Chinese objections, as indicated Chi Ambassador⁹⁷ in conversation with Dept Jun 23,⁹⁸ to implication Commission would be super-agency above Chi Govt subject only to Administrator. Language suggested para (1) Art II Embtel 1087,⁹⁹ however, does depart clearly from Congressional intent and language Act.

If Emb can obtain FonOff statement in writing exchange notes has same binding effect as formal bilateral agreement (Embtel 1138), Dept and ECA will approve exchange notes for rural recon agreement but would prefer formal bilateral agreement. For your info Chi Ambassador has indicated Chi Govt preferred exchange notes in order avoid registration with UN and possible criticism "certain UN members". He is being informed registration must be effected with UN in accordance with Art 102 UN Charter¹ regardless form.

Sent Nanking as 935, repeated Shanghai as 1155.

MARSHALL

893.50 Recovery/6-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 29, 1948—6 p. m.

[Received 11:18 p. m.]

1180. Reference your second paragraph, change being made draft including quoted language since RRC² agreement negotiation has been suspended in order accelerate bilateral ([refDep]tel 939, June 28³).

⁹⁷ V. K. Wellington Koo.

⁹⁸ See memorandum by the Assistant Secretary of State for Political Affairs, p. 558.

⁹⁹ June 15, p. 610.

¹ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031.

² Rural Reconstruction Commission.

³ *Ante*, p. 586.

Reference your third paragraph, Legislative Yuan passed resolution terms foreshadowed Embtel 1128, June 23.⁴

Embassy requesting Foreign Minister⁵ authorization to sign.

Embassy will inform prior signature any deviation amended text now in Department's hands.

Sent Department, repeated Shanghai 548.

STUART

893.50 Recovery/7-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 7, 1948—noon.

[Received July 7—5:42 a. m.]

1242. To Department and ECA. Dr. Tung Ling, director American Affairs Department, Foreign Office, July 2 handed to Embassy officer following drafts of suggested exchange of notes to take place of Rural Reconstruction Commission Agreement. Following is suggested draft of note from Ambassador to Foreign Minister:

“Excellency: I have the honor to refer to section 407 of the China Aid Act of 1948 passed by the Congress of the US of A (hereinafter referred to as the Act) which provides for the conclusion of an agreement between China and the US of A establishing a Joint Commission on rural reconstruction in China. In pursuance of the general principles laid down in the said section of the Act, I have the honor to bring forward the following proposals regarding the organization of the Joint Commission and related matters:

(1) There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission) to be composed of two citizens of the US of A appointed by the President of the US of A and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as chairman.

(2) The functions and authority of the Commission shall, subject to the provisions of the above-mentioned section of the Act, be as follows:

(a) To formulate and to carry out through appropriate Chinese Government, international or private agencies in China coordinated program for reconstruction in rural areas of China (hereinafter referred to as the program).

(b) To conclude arrangements with the agencies referred to in the preceding paragraph establishing a basis for their cooperation;

(c) To recommend to the Governments of the US of A and China within the limits prescribed by the act the allocation of funds that [and] other assistance to the program and to recom-

⁴ Ante, p. 557.

⁵ Wang Shih-chieh.

mend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the program;

(d) To establish standards of performance for implementation of the program and to maintain a constant supervision of all phases of the program, with authority to recommend changes in or stoppage of any phase of the program; and

(e) To appoint a citizen of China as executive director of the Commission and a citizen of the US of A as associate director and to appoint other necessary administrative staff. Salaries, expenses of travel and other expenses incident to the administrative functions of the commission itself shall be paid from funds made available under section 407(b) of the Act.

(3) In respect of any decision of the Commission, the approval of the Government of China shall be obtained prior to its execution if the chairman of the Commission deems it necessary.

(4) The Government of China agrees to grant to the American members of the Commission the privileges and immunities necessary to their effective functioning.

(5) The Government of the US of A and the Government of China will consult with respect to problems incident to the interpretation and implementation of this exchange of notes whenever either of the two Governments considers such action appropriate.

(6) The Government of the US of A reserves the right at any time to terminate or suspend its assistance, any part thereof, provided under this exchange of notes, and also reserves the right at any time to withdraw the US members of the Commission.

(7) This note and Your Excellency's reply accepting the above proposals on behalf of the Government of China will constitute an agreement between the two Governments in the sense of section 407 of the Act. Subject to the provisions of the preceding paragraph, this exchange of notes will remain in force until June 30, 1949, or, upon the request of either Government at least 2 months before June 30, 1949, until the date of termination of the economic aid agreement between the two governments concluded on July 3, 1948." ⁶

Following is suggested draft of reply by Foreign Minister to Ambassador:

"Excellency: I have the honor to acknowledge receipt of your note of today's date which reads as follows: (quoting full text of Ambassador's note)

On behalf of the Government of China, I have the honor to accept the proposals contained in the note quoted above. In recognition of the importance of the program as one of the essential means of achieving the objectives in which the Governments of China and the US of A unite in seeking under the Economic Aid Agreement between the two Governments concluded on July 3, 1948, the Government of China undertakes to afford to the execution of the program the full

⁶ Signed at Nanking, Department of State Treaties and other International Acts Series No. 1837, or 62 Stat. (pt. 3) 2945.

weight of its support and to direct cooperating agencies of the Government of China to give such assistance and facilities as are essential to the success of their undertakings under the program."

Comments on foregoing being submitted in separate telegram,⁷ embodying views of Embassy, Moyer and Dawson.

Sent Department, repeated Shanghai 589.

STUART

893.50 Recovery/7-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 9, 1948—noon.

[Received July 9—6:36 a. m.]

1252. To Department, ECA and Agriculture. On assumption exchange of notes suggested by Foreign Office affords basis for negotiation for establishment joint Rural Reconstruction Commission (reEmbtel 1242, July 7, repeated Shanghai as 589), Embassy, in consultation with Moyer and Dawson, has drafted revised versions of notes which believed adequately cover points of original draft agreement (reDeptel 810, May 28) as subsequently revised.

Herewith suggested note from Ambassador to Foreign Minister:

"Excellency: I have the honor to refer to section 407 of the China Aid Act of 1948 passed by the Congress of the United States of America (hereinafter referred to as the Act), which provides, among other things, for the conclusion of an agreement between China and the United States of America establishing a Joint Commission on Rural Reconstruction in China. In pursuance of the general principles laid down in the Act, and in particular section 407 thereof, I have the honor to bring forward the following proposals regarding the organization of the Joint Commission and related matters:

- (1) Remains unchanged.
- (2) Opening phrase remains unchanged.

(a) Remains unchanged as US interests covered by specific reference to section 407 and by (2) (d) below. Chinese interests covered in (4) below.

(b) and (c) Remain unchanged as they correspond to paragraph (2) and (3), article II of our original draft.

(d) Revised as follows: 'To establish standards of performance for implementation of the program, including the qualifications, type and number of personnel to be used by cooperating agencies in the program, and to maintain a constant supervision of all phases of the program, with authority to recommend changes in or stoppage of any phase of the program'.

(e) We suggest following: 'To appoint such executive officers and administrative staff as the commission deems necessary to

⁷ *Infra.*

carry out the program. Salaries, expenses of travel and other expenses incident to the administrative functions of the Commission itself shall be paid from funds made available under section 407(b) of the Act.' We believe better not to make specific mention of executive and associated directors due some uncertainty advisability Commission having such officers. Above wording allows Commission greater flexibility in arranging for its executive staff. Regarding omitted second sentence from our paragraph (6) article II, we believe it would be difficult and sometimes wasteful of personnel to require application principles of jointness beyond the commission. Also this principle implied in the Commission membership and whole spirit of agreement. If you feel strongly further mention of it needed here, would suggest statement along following lines be inserted into foregoing as second sentence: 'In making such appointments the Commission will bear in mind the desirability of including citizens of both China and the United States.'

(3) Insert full text our article IV as given Embtel 1087, June 15, with original paragraph (4) omitted according Deptel 907, June 22, and introduced with following revised wording: 'In formulating this program to be carried out by appropriate agencies, the Commission shall have authority to include in the scope of its operation the following:'

(Embassy note: We recommend remaining paragraphs read as given below. Some unchanged from Chinese, draft; others reworded or represent articles from US draft inserted as numbered paragraphs.)

(4) In respect of any decision of the Commission, the approval of the Government of China shall be obtained prior to its execution if the chairman of the commission deems it necessary.

(5) It is understood that assistance to a project in any province will be contingent upon the willingness of provincial and hsien officials to take steps necessary to an effective implementation of plans for that project.

(6) The Commission shall publish in China and transmit to the Government of the United States of America and the Government of China, in such forms and at such times as may be requested by either of the two governments, full statements of operations, including a statement on the use of funds, supplies and services received, and will transmit to the two governments any other matter pertinent to operations as requested by either of the Governments. The Government of China will keep the people of China fully informed of the intended purpose and scope of the program and of the progress achieved by the Commission in implementing the program, including the nature and extent of assistance furnished by the Government of the United States of America.

(7) The Government of China will upon appropriate notification of the Ambassador of the United States of America in China consider the United States members and personnel of the Commission as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank.

(8) All supplies imported into China for use in the program shall be free of fiscal charges, including customs duties, conservancy dues

and other charges normally imposed by the Government of China on similar supplies which are imported through regular commercial channels. The Government of China will afford expeditious clearance by the Chinese customs of supplies imported for use in the program.

(9) The Government of the United States of America and the Government of China will consult with respect to problems incident to the interpretation, implementation and possible amendment of the terms of the agreement embodied in this exchange of notes whenever either of the two Governments considers such action appropriate.

(10) The Government of the United States of America reserves the right at any time to terminate or suspend its assistance, or in any part thereof, provided under this exchanges of notes, and also reserves the right at any time to withdraw the United States members of the Commission.

(11) This note and Your Excellency's reply accepting the above proposals on behalf of the Government of China will constitute an agreement between the two Governments in the sense of section 407 of the Act. Subject to the provisions of paragraphs (9) and (10), this exchange of notes will remain in force until June 30, 1949, or, upon the request of either Government at least 2 months before June 30, 1949, until the date of termination of the Economic Aid Agreement between the two Governments concluded on July 3, 1948. ["]
(End of suggested note from Ambassador.)

Regarding suggested note from Foreign Minister, we believe this acceptable as given Embtel 1242.

While we consider inclusion preamble in Ambassador's note desirable, we believe essential points covered in his note especially in opening paragraph and in (3) and in closing paragraph of Foreign Minister's note. Regarding registration exchange of notes with UN, Foreign Office interposes no objection. Does Department desire have this point incorporated in exchange of notes?

Embassy planning give Foreign Office our former article IV as revised in (3) of Ambassador's note above. Before submitting to Foreign Office additional material or comment, we will await receipt your comments and instructions on our suggested exchange of notes cited herein.

Sent Department 1252, repeated Shanghai 600.

STUART

893.50 Recovery/7-948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 14, 1948—7 p. m.

1029. Revised version exchange notes re establishment Joint Rural Recon Commission reported Embtel 1252 July 9 approved by Dept and ECA with following changes:

1. In first para opening sentence should read "I have the honor to refer to Section 407 of the China Aid Act of 1948 enacted by the Government of the United States" etc. Enactment of Act includes passage by Congress and signature by President as change indicates.

2. Para (1) unchanged.

3. Para (2) unchanged. Dept and ECA do not feel strongly necessary adding suggested second sentence subpara (e).

4. Para (3) unchanged.

5. Para (4) accepted with deletion "the Chairman of" after word "if".

6. Para (5) unchanged.

7. Para (6) unchanged.

8. Para (7) unchanged.

9. Para (8) unchanged.

10. Para (9) unchanged.

11. Para (10) accepted with addition para (3) Art III Dept-ECA draft as second sentence reading as follows: "Assistance furnished by the Govt of the US under Section 407 of the Act and pursuant to this exchange of notes shall not be construed as an express or implied assumption by the Govt of the US of any responsibility for making any further contributions to carry out the purposes of Section 407 of the Act or of this exchange of notes".

12. Para (11) accepted with addition of "transmitted to the other Govt" after phrase "upon the request of either Govt" in final sentence.

Proposed note from FonMin given Embtel 1242 July 7 approved by Dept and ECA.

As stated Deptel 907 Jun 22 not necessary include registration with UN in exchange notes. Dept does, however, expect effect such registration.

You are authorized transmit FonOff Emb version exchange notes after changes indicated this telegram.

MARSHALL

893.50 Recovery/7-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 21, 1948—3 p. m.

[Received July 21—11:05 a. m.]

1332. To Dept, ECA and Agriculture. Upon receipt Deptel 1029, July 14, repeated Shanghai 1280, re Rural Reconstruction Commission, Embassy in consultation with Moyer and Dawson prepared *aide-mémoire* containing texts of suggested notes. This document delivered Foreign Office July 16 and discussed informally by above cited and Embassy officer with Tung Ling, director, American Affairs Dept. As conversation indicated Chinese would object wording paragraph (3) of suggested note from Ambassador, Moyer and Embassy officer July 17 drafted revised version thereof for twofold purpose meeting Chinese objections and improve language especially avoiding exces-

sive use term "program". Herewith revised version (3) with changes made in introductory sentence and subparagraphs (a) through (e) inclusive but excluding (d) :

"In its program the commission may include the following types of activity to be carried out in agreement with the agencies referred to in paragraph (2) (a) :

(a) A coordinated extension type program in agriculture, home demonstration, health and education for initiation in a selected group of hsien in several provinces to include a limited number of subsidiary projects suited to conditions in the areas where the program is developed, in such fields as agricultural production, marketing credit, irrigation, home and community industries, nutrition, sanitation and education of a nature which will facilitate the promotion of all projects being undertaken ;

(b) Consultation with the appropriate Chinese Govt authorities regarding definite progressive enforcement in areas where this coordinated program is carried out, of the pertinent features, etc. ;

(c) Progressive steps to survey, register and appraise agricultural land in areas where this program is carried out ;

(d) No changes ;

(e) Projects to put into effect over a wider area than provided for in the coordinated extension type program specified in (a), any of the above lines of activity which can be developed soundly on a larger scale, etc."

Dept will notice dropping of term "authority" from introductory paragraph, this being done in response Tung's statements made July 16 that Foreign Minister would definitely not accept suggested infringement upon Chinese sovereignty. Re subparagraph (b), we believe original wording unfortunate as it implied that enforcement powers being demanded for Commission. Tung also raised strong objection to this provision.

Foreign Office comments upon our July 16 *aide-mémoire* and revision paragraph (3), latter informally made available to Foreign Office July 17, contained *aide-mémoire* from Foreign Office dated July 19. These comments being reported in subsequent telegram.⁸

Sent Dept 1332, repeated Shanghai 642.

STUART

893.50 Recovery/7-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 21, 1948—3 p. m.
[Received July 21—10:27 a. m.]

1335. To Department, ECA and Agriculture. Re Embtel 1332, July 21, 3 p. m., repeated Shanghai 642, on Rural Reconstruction Commission.

⁸ *Infra*.

Herewith Foreign Office comments as stated in its July 19 *aide-mémoire*:

Re suggested note from Ambassador to Foreign Minister :

1. Introductory paragraph accepted.
2. Paragraph (1) accepted.
3. Paragraph (2) accepted but with reservation re subparagraph (e). Foreign Office states while it does not insist upon expressing provision that Commission shall have a Chinese citizen serving as its executive director suggestion made that this understanding be recorded in separate agreed minutes to be signed by Chinese and American negotiators or other representative of two governments.
4. Re paragraph (3), Foreign Office agreeable substance thereof except sub-paragraph (b). Following from *aide-mémoire*: "However, in view of comparatively limited time available to commission, it might not be possible for Commission to execute all items of program as contemplated in paragraph (3). In order to avoid possible disappointment, Ministry suggests that details enumerated paragraph (3) be put in above-mentioned agreed minutes rather than in exchange of notes. Subparagraph (b) of paragraph (3) should, however, be deleted since insertion in the notes of this clause which concerns the enforcement of laws and regulations by local authorities may give rise to impression that Commission's interference with domestic administration in China is purported."
5. Re paragraph (4), Foreign Office proposes that words "or its chairman" be inserted immediately after words "if the Commission". Following explanation therefor given in *aide-mémoire*: "In view of relationship between Commission [and ECA] of US as provided in China Aid Act, Ministry considers that Chairman of Commission as distinct from Commission itself should not be deprived of discretionary power to submit decision of commission to the approval of Chinese Government prior to their execution in order to provide necessary safeguard for administrative integrity of China."
6. Foreign Office recommends deletion paragraph (5) reference being made to phrase in penultimate paragraph suggested Foreign Minister's note to Ambassador to effect "the Government of China undertakes to afford to the execution of the program the full weight of its support and to direct cooperating agencies of the Government of China to give such assistance et cetera". In view foregoing Foreign Office states paragraph (5) "seems to be superfluous and should be deleted."
7. Paragraph (6) accepted.
8. Re paragraph (7), Foreign Office states: "While Chinese Government has no objection to the enjoyment of diplomatic privileges and immunities by the American members and personnel of the Commission, it is proposed that following sentences be added to paragraph (7) :

'It is understood that the Ambassador of the United States of America in China in making the notification will bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges and immunities would be requested. It is also understood that the detailed application of this paragraph would, when necessary, be a subject of inter-governmental discussion.'

Foreign Office concludes by noting that wording of two proposed sentences follows closely that of paragraph 3 of Annex to Aid Agreement signed July 3, 1948.

9. Re paragraph (8), Foreign Office states "on account of the constitutional limitations on the power of taxation of the Central Government China" proposed that words "fiscal charges, including" in first sentence be deleted. Foreign Office also proposed deletion last sentence this paragraph, point being made by Tung when he handed *aide-mémoire* to Embassy officer that language appeared to be critical of Chinese customs and that, should any difficulties arise in this regard, Embassy and Commission could call upon Foreign Office with confident expectation that prompt corrective action would be taken.

10. Paragraph (9) accepted.

11. Re paragraph (10), Foreign Office recommends deletion clause "and also reserves the right to withdraw the US members of the Commission" at end first sentence. Foreign Office also recommends deletion entire second sentence this paragraph, both recommendations made on grounds that provision included in this paragraph for US Government to terminate or suspend its assistance at any time.

No change suggested in text of note from Foreign Minister to Ambassador.

Tung has informally suggested inclusion of following in agreed minutes: "It is understood that the decisions of the Commission shall be reached by majority vote of the members thereof".

Moyer, now in Taiwan with Stillman mission, expected Nanking July 23 for consultation re our recommendations on Foreign Office proposals cited above.

Sent Dept 1335, repeated Shanghai 645.

STUART

893.50 Recovery/7-2448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 24, 1948—1 p. m.

[Received July 24—4:16 a. m.]

1358. To Dept, ECA and Agriculture. ReEmbtel 1335, July 21, repeated Shanghai 645, on Rural Reconstruction Commission. Moyer and Embassy officer July 23 discussed Foreign Office proposals with Dr. Tung Ling, director American Affairs Department. In this informal discussion we indicated to him what our recommendations to Department would be and endeavored enlist this support to obtain Foreign Minister's agreement thereto, in effort expedite early conclusion these negotiations without use of suggested separate unpublished agreed minutes as proposed by Foreign Office.

Herewith our comments and recommendations reference being made to numbered points reftel:

3. In order meet Foreign Office proposal regarding subparagraph (e) paragraph (2), we suggest first sentence read as follows: "To appoint such executive officers and administrative staff as Commission deems necessary to carry out the program, it being understood that the chief executive officer shall be a citizen of China."

4. We indicated to Tung in unmistakable language our desire have paragraph (3) retained in exchange of notes. We stressed value including these provisions in published exchange of notes from standpoints informing Chinese people regarding intentions of commission and serving to counter Chinese Communist propaganda regarding lack of positive rural reconstruction program of National Government. We also stressed importance outlining in definite terms the possible scope of Commission's work since many different views held here with respect meaning of rural reconstruction. To meet Foreign Office objections to subparagraph (b) of paragraph (3), we suggest this subparagraph be merged with subparagraph (c) to read as follows: "Consultation with the Chinese Government concerning ways and means of progressively carrying out land reform measures, including steps to survey, register and appraise agricultural land, in areas where the coordinated extension-type program specified in subparagraph (a) of this paragraph is established." This wording designed remove Foreign Office objection to inferred enforcement by Commission of Chinese laws and regulations. If our proposal accepted, lettering remaining subparagraphs should be altered accordingly.

5. We perceive no objection to Foreign Office proposal that words "or its chairman" be inserted immediately after words "if the Commission" in paragraph (4).

6. Reference Foreign Office suggested deletion paragraph (5), we make counterproposal to insert in penultimate paragraph Foreign Minister's note to Ambassador immediately after "to direct cooperating agencies of the Government of China" the following words set off by commas "including the local officials concerned". This wording while not so specific as that originally suggested for paragraph (5) appears to meet our needs and permits Chinese save face on delicate question authority National Government over provincial and other local officials. If you concur dropping paragraph (5), remaining paragraphs should be renumbered accordingly.

8. We recommend adoption Foreign Office proposal reference paragraph (7) regarding diplomatic privileges and immunities.

9. We recommend adoption Foreign Office proposals for deletion words "fiscal charges, including" and last sentence paragraph (8).

11. We recommend adoption Foreign Office proposal delete clause "and also reserves the right to withdraw the US members of the Commission" in paragraph (10) but insist upon retention entire second sentence this paragraph.

Regarding Tung's suggestion on voting procedure contained penultimate paragraph reftel, we recommend inclusion this sentence as final sentence paragraph (1).

Foreign Office proposals and our recommendations were discussed by Moyer with Dawson prior to July 23 meeting at Foreign Office.

We believe Dawson in full agreement our recommendations except those under points (3) and (6) this telegram. Cannot now be reached order determine his attitude these points. Moyer will confer with him at Shanghai evening July 24 or morning July 25.

Moyer now hoping return Washington after week or 10 days by which time we hope negotiations on exchange of notes may be finalized. Accordingly urgently request Department send instructions regarding above.

STUART

893.50 Recovery/7-2548 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 25, 1948—2 p. m.

[Received July 25—2:50 a. m.]

1664. To Department, ECA and Agriculture from Dawson. Re-Embtel 1358, July 24. Following conference with Moyer, approve state Benton [*statement on*] agreement with following comments.

Point 5, "or its chairman" should be followed by "with the concurrence of the Chinese members". Moyer concurs this revision.

Point 6, will not seriously object this revision with understanding Moyer as a member of committee will insist that initiation of projects in provinces contingent upon support of provincial and hsien officials. Moyer concurs.

Sent Department, repeated Nanking 1341. [Dawson.]

CABOT

840.50 Recovery/7-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 27, 1948—7 p. m.

1078. Various suggestions re exchange notes on establishment Joint Rural Recon Commission reported Embtels 1332 July 21, 1335 July 21, and 1358 July 24 and Shanghai's 1664 July 25 noted. Dept and ECA offer following comment on Amb note to FonMin:

1. Introductory para including changes suggested Deptel 1029 July 14, agreed on.

2. Para (1) should remain unchanged. While we are willing you should indicate orally to FonOff understanding Commission decisions shall be reached by majority vote, it is not believed necessary add sentence in agreement proposed informally by FonOff for inclusion in agreed minutes. This would seem to be contrary to spirit of general agreement among members Commission rather than split vote between Chinese and US members. In this connection, we do not consider agreed minutes desirable or necessary.

3. Para (2) accepted with inclusion initial sentence subpara (e) suggested in Embtel 1358.

4. Emb comments to FonOff re para (3) approved and this para accepted with following reservations: Combining subparas (b) and (c) as suggested Embtel 1358 carries implication restriction land reform measures to "survey, register and appraise". It would be preferable retain these subparas as set forth Embtel 1332. If FonOff unwilling approve, however, Emb should merge two subparas as indicated Embtel 1358 with deletion "including steps to survey, register and appraise agricultural land" set off by commas after "measures". Extent of "land reform measures" would then be subject later discussion within Commission. Embtel 1332 makes no mention subparas (f) and (g). Are these to be retained?

5. Para (4) accepted with additions proposed Embtel 1358 and Shanghai's 1664.

6. Deletion former para (5) re provincial and hsien officials and insertion "including the local officials concerned" after "Govt of China" in final para FonMin note to Amb proposed Embtel 1358 July 24 approved. Remaining paras renumbered accordingly.

7. Para (5) unchanged.

8. Para (6) accepted with addition two final sentences suggested by FonOff and approved by Embtel 1358.

9. Para (7) accepted with deletion "fiscal charges, including" and final sentence recommended Embtel 1358 and further deletion word "normally" after "charges".

10. Para (8) unchanged.

11. Para (9) accepted with deletion clause first sentence re withdrawal US members Commission suggested by FonOff and approved Embtel 1358. As indicated Embtel 1358 entire second sentence should be retained.

12. In para (10) "paras (8) and (9)" in second sentence should be substituted for "paras (9) and (10)" due to renumbering paras.

13. FonMin note to Amb contained Embtel 1242 July 7 approved with inclusion additional wording described in 6 above.

Suggest use of "Govt of the US of A" throughout notes to be consistent with Economic Aid Agreement.

MARSHALL

893.50 Recovery/7-3048: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 30, 1948—6 p. m.

[Received July 31—7:12 a. m.]

1397. ReDeptel 1078, July 27, repeated Shanghai 1367, concerning Joint Rural Reconstruction Commission. Basis instructions therein, Moyer and Boehringer⁹ July 30 presented *aide-mémoire* to Foreign Office giving full texts of Ambassador's and Minister's notes as now revised. Discussion here with Dr. Tung Ling, director American Affairs Department, who indicated Foreign Minister would now prob-

⁹ Carl H. Boehringer, First Secretary of Embassy in China.

ably approve texts of notes. Question raised re voting procedure and we agreed cover point in supplementary *aide-mémoire*. Appears to be small matter but one in which Foreign Minister himself interested.

Tung expressed opinion Foreign Office in position August 2 to notify Embassy of its acceptance of texts of notes. He said that Executive Yuan would have to give its approval at regular weekly meeting August 4 adding that as Premier has been kept fully informed of negotiations no difficulty expected. We expressed hope to have exchange take place August 6 which agreeable to Tung.¹⁰

We now giving thought to questions of press release, text of which we expect wire Department¹¹ early next week and attendance at simple ceremony of signing and exchanging notes of Lapham, Gilpatric,¹² Embassy officers including Dawson and key Chinese officials concerned.

Sent Department 1397, repeated Shanghai 676.

STUART

893.50 Recovery/8-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 3, 1948—2 p. m.
[Received August 3—3:33 a. m.]

1420. For Department, ECA and Agriculture. ReEmbtel 1397, July 30, repeated Shanghai 676, concerning Rural Reconstruction Commission. Re question voting procedure on July 30, we handed to Tung Ling, Foreign Office, brief *aide-mémoire* stating in part:

"Regarding the voting procedure to be followed by the members of the Commission, it is the understanding of the Embassy that decisions of the Commission should be reached by majority vote of the members there."

Tung August 2 stated he had sent Embassy similar statement in *aide-mémoire* but document not yet received here.¹³ Purpose present telegram is to inform Department and others concerned re this exchange which made with understanding no publication be given thereto.¹⁴

Sent Department 1420, repeated Shanghai 687.

STUART

¹⁰ In telegram No. 1400, July 31, 2 p. m., the Embassy reported that the Foreign Minister had approved the texts of the notes presented in its *aide-mémoire* of July 30 and that August 5 had been agreed to for their signing (893.50 Recovery/7-3148).

¹¹ Telegram No. 1411, August 2, 6 p. m., not printed.

¹² Mr. Gilpatric was appointed Deputy Chief of ECA China Mission July 1 but continued, concurrently, as Attaché at the Shanghai Consulate General.

¹³ The *aide-mémoire* was received by the Embassy on August 4.

¹⁴ In telegram No. 1110, August 3, 3 p. m., to the Ambassador in China, the Department indicated its approval and that of the ECA regarding this voting procedure (893.50 Recovery/7-3148).

893.50 Recovery/8-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 3, 1948—5 p. m.

[Received August 3—7:38 a. m.]

1424. For Department, ECA and Agriculture. ReEmbtel 1411, August 2,¹⁵ repeated Shanghai 682. Following is text of statement to be issued by Ambassador on occasion of signing and exchanging notes on August 5 providing for establishment joint Sino-American Commission on Rural Reconstruction:

"It is my sincere hope that students of Chinese social and economic problems will consider this day to be a milestone of progress toward sound improvement of conditions in the rural areas of this country. The notes exchanged today between His Excellency Dr. Wang Shih-chieh and myself provide for the establishment of a Sino-American Commission on Rural Reconstruction in China. Establishment of this Commission, in the work of which I shall take a deep and personal interest, is made in recognition of the importance of reconstruction in the rural areas to the welfare of the Chinese people as a whole, in recognition of the obvious fact that such reconstruction should have in its purpose the improvement of economic, social and cultural conditions in these areas. I am sure that the report of the establishment of this Commission will be received with considerable interest in the United States. The terms of reference for the Commission, contained in the Agreement embodied in the notes exchanged today, are sufficiently broad to permit the Commission to undertake a highly significant program in the field of rural reconstruction. I am specially gratified with the establishment of the Commission because it represents another chapter in the long record of close collaboration between China and the United States in this field, one of the most recent instances of which was the joint China-United States Agricultural Mission in 1946. That mission's findings and recommendations are, I understand, to be used in large part as a basis for the work of the Commission which is about to be established."

Sent Department 1424, repeated Shanghai 689.

STUART

893.50 Recovery/8-548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 5, 1948.

[Received August 5—1:35 a. m.]

1434. For Department, ECA and Agriculture. Notes providing for establishment Sino-American Commission on Rural Reconstruction in China signed at Foreign Office at 11 a. m., August 5,¹⁶ Nanking daylight time.

¹⁵ Not printed.

¹⁶ For texts, see *Treaties and Other International Acts Series No. 1848*, or 62 Stat. (pt. 3) 3139.

After notes signed and exchanged, Dr. Wang Shih-chieh, Foreign Affairs Minister, read following prepared statement:

"The notes just signed and exchanged constitute a supplement to the Bilateral Aid Agreement of July 3, 1948, between the Government of China and the Government of the United States of America. This arrangement concerning rural reconstruction will certainly meet one of the most urgent needs of China whose countryside has suffered so tellingly from so many years of war damage and Communist devastation. This arrangement will enable our rural population to benefit from the technical knowledge and experience of both Chinese and American experts in the fields of farm economy, rural education and sanitation.

"When the work contemplated under the program develops, it will, I anticipate, put a large number of our educated youths into various kinds of rural reform work and thus make this arrangement both a plan of enterprise and a training ground for future rural leadership. Admittedly the funds provided for rural reconstruction by the Bilateral Aid Agreement are of modest dimensions—not exceeding 10 percent of the total economic aid. But, as the Joint Commission is to execute its program through existing Governmental and other agencies rather than creating machinery of its own, economy and efficiency may well result from this arrangement. I fervently hope that the sum of money thus spent will bear such result as will compare favorably with a similar amount used for any other project. This will be the best way to show our appreciation for the friendly sentiments of the American people."

Ambassador then read prepared statement, text of which already transmitted to Dept.¹⁷

Sent Department, repeated Shanghai 695.

STUART

IV. PROBLEMS ENCOUNTERED BY THE UNITED STATES IN FURNISHING AID TO CHINA UNDER THE CHINA AID ACT OF 1948: DANGER OF INCREASING INFLATION BY AID FUNDS; CONTINUING AID TO CHINESE RESISTING COMMUNISTS IN NORTH CHINA; DECISION TO DISCONTINUE AID IN AREAS COMING UNDER COMMUNIST CONTROL

893.51/6-3048: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1948—3 p. m.

959. *New York Times* of June 27 contained despatch by Durdin¹⁸ date line Shanghai June 26 and headlined "Chinese inflation turns for worst; deterioration raises issue of how American aid can be effectively used." After introductory description sharp break black market,

¹⁷ *Supra.*

¹⁸ Tillman Durdin.

story attempts describe policy issues involved disposal special account,¹⁹ substance of which is as follows:

Worse economic plight accentuates problem devise U. S. aid operations alleviate new conditions. "One school of thought here, shared by some planners in State Department" favors no current expenditures with proceeds sale aid goods. Felt that such expenditures to finance relief and construction projects merely increases inflation. Therefore argued that proceeds should be sterilized by turning them over Chinese treasury as substitute [for] money otherwise printed for regular expenditures. The other school [of] thought defends projects, such as those sponsored CRM,²⁰ as benefit China and giving US some control supervision many aspects relief and rehabilitation. This school argues that amount currency printed probably not affected if proceeds sale aid goods released Chinese Treasury.

"Some proponents of the first line of action are pessimists on China aid who are skeptical that any decisive contribution toward saving the Chinese Government can be made by US assistance. These individuals would commit Americans to as little control of expenditures as possible and as little responsibility for what ultimately happens. Chinese negotiators are arguing for a minimum of American supervision and control and a minimum of specially directed projects."

Sent Nanking as 959, repeated to Shanghai as 1178.

MARSHALL

893.50 Recovery/7-848: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 8, 1948—6 p. m.

1003. Re ECA ²¹ intention continue CNC ²² relief expenditures from Special Account (Shanghai's TOECA 57, June 24 ²³), Dept requests comment Emb and ConGen policy aspects this program. Justification presented Reftel made primarily in terms political considerations.

¹⁹ Established under article V of the Economic Aid Agreement between the United States and China, signed at Nanking, July 3, 1948, Department of State Treaties and Other International Act Series No. 1837, or 62 Stat. (pt. 3) 2945. For correspondence on negotiation of this Agreement, see pp. 506 ff.

²⁰ China Relief Mission (United States), which administered relief measures in China authorized under Public Law 84, approved May 31, 1947; 61 Stat. 125. For correspondence on negotiation of agreement with China under which such relief was administered, see *Foreign Relations*, 1947, vol. VII, pp. 1293 ff.

²¹ Economic Cooperation Administration.

²² Chinese national currency.

²³ This message from the ECA China Mission to its Washington headquarters reported the mission's intention to continue and to add to production projects initiated by CRM, to slow down on relief assistance unless the flow of refugees to cities would prevent it, and to continue semi-relief projects such as medical assistance to hospitals and other institutions and assistance to voluntary agencies. The message indicated the Ambassador had been consulted on these matters. (Nanking Embassy Files, Lot F79-800 China Aid)

Dept believes critical character inflation requires that such expenditures should be made only when projects justified by over-riding political importance from point of view US policy interests in China. Where can line be drawn on direct relief in China? Will not promotion such relief in urban centers attract refugees from Kmt²⁴ as well as Communist areas? No intention minimize humanitarian significance such projects, but this consideration should not be dominant criterion implementation US policy in present circumstances.

Dept not aware receipt any general reports re USFRP²⁵ direct relief for refugees and indigents, which explain its scope and importance in terms Reftel. What was status such persons prior USFRP and what were political repercussions in absence US-sponsored relief activity? Ref TOECA 57, (a) what is attitude "official ChiGovt circles" Special Account relief expenditures and, if regarded as politically important, what steps being taken by ChiGovt in this regard on its own initiative; (b) attitude what groups would cause embarrassment ECA Mission as result sharp curtailment such expenditures? (c) how important in light policy considerations is continuation "medical assistance to Govt and private hospitals and institutions" and "assistance provided voluntary agencies"? Would such assistance be primarily through provision [of] imported medical and other relief goods under ECA program, or through allocation Special Account funds as support operating budgets such organizations? If latter, what is your assessment longer-run consequences assumption such role by US Govt?

Sent Nanking as Dept's 1003, repeated Shanghai as Dept's 1231.

MARSHALL

893.50 Recovery/7-848 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 8, 1948—6 p. m.

1004. In view reasonable presumption Durdin based story (Deptel 959 repeated Shanghai as 1178) on conversations U.S. officials, Dept offers comments below. Problem disposition Special Account concerns unencumbered balances remaining after withdrawals or commitments made for administrative expenses ECA, rural reconstruction program, and distribution private relief goods, as specified Article V bilateral agreement.²⁶

1) Question is not disposal proceeds sale aid goods, as under USFRP Special Account, but disposal ChiGovt deposits Special Ac-

²⁴ Kuomintang (Nationalist Party).

²⁵ United States Foreign Relief Program, administered by CRM.

²⁶ Economic Aid Agreement of July 3, 1948.

count in value "commensurate" aid goods. While proceeds sale could be used make such deposits, ChiGovt has alternative deposit any income or funds borrowed from Central Bank. Under Act,²⁷ U. S. has no control over proceeds sale per se.

2) "Sterilization" could not be accomplished by releasing Special Account funds to Chinese Treasury for regular Govt expenditures. This would represent active use funds. Meaning "Sterilization" Special Account funds present context is refusal draw them for expenditure any purpose.

3) True that rate of increase note issue would be no less if account released for regular government expenditures than if account were sterilized. However, implication above observation in Durdin story is that consequently account should be used special relief and rehabilitation projects as though such alternative would also have negligible effect amount currency otherwise issued. This, of course, not the case. Expenditure entire account extraordinary purposes would increase total Govt inflationary spending significantly.

4) Allegation that advocacy sterilization is result pessimism and desire avoid US involvement is irrelevant to major issue presented by Durdin, which is one of financial policy. Equally possible for proponents sterilization believe that such policy most effective means provide maximum respite permit Chinese measures self-help.

5) Punch line re efforts Chinese negotiators minimize US supervision and control contains interesting implication that proponents sterilization are playing into Chinese hands. This revelation to Dept since previous Emb, Congen and CRM comment to effect that, insofar as ChiGovt interested rehabilitation projects, it favored, in general, U. S. supervision. Unwary readers, however, likely associate Durdin's reference "supervision and control" with similar references contained Lieberman's article (Deptel 883, June 15²⁸) in which such references were related to problem effective distribution U. S. aid goods rather than to operation projects financed exclusively ChiGovt funds from Special Account.

Dept concerned at indication U. S. policy considerations relating to diverse and unresolved issues have been made available press. Published presentation in such distorted manner further confuses situation. Dept trusts that foregoing comments 1-5 will help clarify any misconceptions held by U. S. representatives China.²⁹ (Sent Nanking as 1004. Repeated Shanghai as 1232.)

MARSHALL

²⁷ Foreign Assistance Act of 1948, approved April 3, 1948; 62 Stat. 137.

²⁸ Not printed; it summarized news despatch by Henry R. Lieberman in the *New York Times* on June 15 (893.50 Recovery/6-1548).

²⁹ In telegram No. 1311, July 19, 6 p. m., the Ambassador in China asserted that the two newspaper despatches were "not based to best Emb's knowledge on any statements made by Emb or ConGen officers." (893.50 Recovery/7-1948)

893.50 Recovery/7-1348

*The Consul General at Tientsin (Smyth) to the Ambassador in China
(Stuart)*³⁰

No. 71

TIENTSIN, July 13, 1948.

SIR: I have the honor to state that since my return to Tientsin recently from leave of absence in the United States I have been impressed with the steadily increasing feeling on the part of northern Chinese that they have been deserted by their National Government. They feel, and the facts bear them out, that the National Government has neglected North China and has discriminated against it in favor of South China with regard to military supplies, relief allocations, allotment of foreign exchange for imports, and in many other ways, including the absence of northern Chinese in important positions in the National Government. This feeling is manifest in conversation with Chinese military and civil officials, business men and others, and is the subject of frequent items and comments in the local Chinese press.

Chinese here feel that National Government authorities in Nanking, Shanghai, Canton, and also in Washington are now engaged in a deliberate and intense effort to create the impression with American authorities that the situation in North China is beyond hope and that this area should therefore not be seriously considered in connection with the present American aid program. Chinese officials here maintain that the Government's defeatist attitude in regard to North China is not warranted. They point out that in a number of ways the military situation in North China is better than in many other National Government areas, notably Honan, Shantung, Hupeh and north central China in general, where Government armies have sustained severe reverses. They remark that since the assumption of control in North China by General Fu Tso-yi six months ago, military operations against the Communists in this area have been conducted with far more competence than has been the case elsewhere in China. They state that troops and people have confidence in General Fu. They assert that General Fu has been carrying on under the handicaps of lack of cooperation from National commanders in adjoining areas, lack of troops, and a lack of arms due to the refusal of the Government to supply him with badly needed equipment. They say that, despite these handicaps, he has done far better than other Nationalist military leaders, and they maintain that, given a fair share of American military as well as economic aid, he and his troops could hold North China against the Communists.

³⁰ Copy transmitted to the Department by the Consul General without covering despatch; received July 27.

Chinese here fear, however, that the National Government will endeavor to keep in the South all military aid from the United States and will let North China fend for itself. In this case, it is stated, General Fu will not be able to hold off the Communists indefinitely and North China will be lost to the Government. If North China falls to the Communists, Chinese here believe that the rest of China will sooner or later go the same way. They have little regard for the reported Government plan to build up a base in the South from which a drive could later be made to retake North China, and say that if North China should be lost, due to Government failure or refusal to grant aid, the Government would later meet with serious resistance from an embittered population.

Chinese officials here believe that economic aid alone will not suffice and that economic aid must be accompanied by military assistance. Economic aid for the Kailan mines, for example, would not be completely effective without adequate military protection for the mines and railways. For this reason, they hope that arms and related equipment will be given them under the American aid program. In particular, they state that arms are needed to equip 100,000 militia which have been raised and partially trained by General Fu; these militia have no arms, and if arms were supplied under the aid program, the new arms would be given regular troops who would turn over older weapons to the militia.

Chinese here feel that, in view of the apparent policy of the National Government to keep American aid in the South, very little economic and no military aid will be allotted to North China without pressure from the American authorities. They hope that such pressure will be exerted in order that North China may receive a fair share of such aid.

The recent visit to Tientsin of Mr. Stillman's ECA China Mission Survey Group ³¹ (reported in despatch no. 72 of July 13, 1948) ³² was welcomed by Chinese officials and others who hope to receive assistance, but the feeling persists that the Government authorities in Nanking, Shanghai and Washington, being in much closer touch with the higher American authorities, will be successful in keeping most of the American aid in the South.³³

³¹ The Reconstruction Survey Mission had been sent to China in June by the ECA to recommend allocation of funds to reconstruction projects under the China Aid Act of 1948, approved April 3, 1948; 62 Stat. 158. Its director was Charles L. Stillman, Consultant to the ECA on the China Aid Program.

³² Not printed.

³³ In despatch No. 74, July 28, to the Ambassador in China, the Consul General at Tientsin reported that Roger D. Lapham, Chief, ECA China Mission, had visited Tientsin from July 25 to 27 and, at a press conference on July 26, had indicated that North China would not be overlooked in the aid program (893.50-Recovery/7-2848).

In conclusion, it should be remarked that most Chinese in Tientsin do not want a Communist regime and would prefer to continue allegiance to the National Government. However, to hold this allegiance the Government must render effective assistance and cease the present discrimination against North China. If help is not forthcoming and present discrimination continues, North China leaders will have to decide whether to continue resistance against the Communists or make other arrangements.

Respectfully yours,

ROBERT L. SMYTH

893.6463/7-1648 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, July 16, 1948—2 p. m.

[Received July 17—1:34 a. m.]

206. Re Shanghai 1245, July 9 to Nanking,³⁴ repeated Tientsin as 166 delayed in transmission here. We understand Eximbank³⁵ refused to reallocate to Tientsin and Peiping 2 turbo generator sets each 5,000 kws. originally destined for Sian, apparently on ground military insecurity this area. In this connection please see my 372, July 14 to Nanking, repeated Department as 204,³⁶ Shanghai as 339, re feeling of Chinese in North China that National Government is making deliberate effort to create impression with American authorities that North China is lost and should not be considered in American aid plans.

Fact that Eximbank refused reallocate generators North China generally known here and has resulted in impression that American authorities have joined Central Government in writing off North China. It seems to us North China is more secure than pictured by Central Government, particularly if fair share of ECA aid is to be given North China. Furthermore, General Fu Tso-yi and military leaders this area have been conducting operations against Communists with more competence and success than other areas. Allocation generators to Tientsin-Peiping would have very favorable effect on North Chinese morale and would at same time help to alleviate critical electrical power shortage in each of these two cities. Statement on urgent need for generator handed to Mr. Stillman in Tientsin July 9 by C. T. Ku, [manager] power company here.

Sent Nanking as 374, repeated Department as 206 and Shanghai as 341.

SMYTH

³⁴ Not printed.

³⁵ Export-Import Bank of Washington.

³⁶ Vol. VII D. 355.

S93.50 Recovery/7-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 20, 1948—7 p. m.
[Received July 21—12:57 a. m.]

1323. Embassy shares Dept belief (refDeptel 1003, July 8) that major emphasis disposition of special account should be on sterilization as being direct and effective attack at inflation root. As Embassy has stated before, however, there are many meritorious CNC-financed former CRM projects which it would be a mistake to discontinue. Admittedly line is difficult to draw. Embassy believes criteria for support such projects should be higher than under CRM. Given difference in magnitude ECA and USFRP funds, Embassy believes most deserving and from US point of view politically, most valuable projects could be continued under ECA employing only fraction of special accounts total. Phrase in reftel "official Chinese Govt circles" believed by Embassy in large part to consist of provincial and municipal officials in whose jurisdictions projects have been supported for which they have been deeply grateful. Projects such as emergency refugee relief and dyke reconstruction have generated gratitude and good will toward US on part submerged classes.

Reference (c) reftel, selected medical and volunteer agency assistance admittedly contains dangerous long run implications in view temporary nature such support. Embassy believes ECA here aware such implications and still in process formulating its recommendations.

Sent Department 1323, repeated Shanghai 637.

STUART

S93.6463/8-748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 11, 1948—5 p. m.

1159. Relocation generators discussed by Stillman with Eximbank officials in presence Dept representative. Reaction was negative under present conditions and will probably continue to be so unless there is definite indication that ChiGov is itself taking constructive steps in North China situation other than with respect to Eximbank or other US financed projects. A particular stumbling block is widely held view here that Chinese have in fact been removing industrial facilities from North China. (ReEmbtel 1455 Aug 7³⁷).

It is suggested that this matter should be handled directly by NRC³⁸ representatives with Bank. A statement from NRC would be de-

³⁷ Not printed.

³⁸ Chinese National Resources Commission.

sirable indicating steps being taken to expedite installation other 8 generators under this loan, and of justification of request for relocation generators Tientsin and Peiping in terms general policies ChiGov and any technical or other reasons which favor these locations as opposed to possible alternatives. Dept suggests such statement might be forwarded thru Emb, in which event Emb's comments and recommendations are requested.

MARSHALL

893.6463/8-1448 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, August 14, 1948—10 a. m.

[Received August 16—12:17 a. m.]

235. ReDeptel 1159, August 11 to Nanking, repeated Tientsin as 165, Shanghai 1465 and Peiping as 144. According to reliable sources here, including KMA,³⁹ no industrial facilities have been removed from North China as result of reported issuance by Nanking several months ago of instructions calling for removal of certain facilities to South. Nanking instructions aroused bitter resentment in North and there seems no likelihood that any machinery or industrial facilities can be taken away from North China in face of this strong feeling. Effort made by NRC in May to remove Tangshan steel plant; some machinery packed for shipment but whole matter dropped early June because of vigorous opposition. To make sure that no industrial machinery and equipment would be removed to south, Tientsin Garrison Commander on July 19 issued order prohibiting removal to south of any such items (see our A-48, August 3⁴⁰ political review for July).

Only removal from North China, of which we are aware, consisted of 2 locomotives, 43 freight cars manufactured Mukden transferred from northeast few months ago, which Peiping-Mukden Railway unable to buy and subsequently sold to Chekiang-Kiangsi Railway.

Sent Nanking 411; repeated Department 235, Shanghai 383, Peiping.

SMYTH

893.6463/8-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 30, 1948—5 p. m.

[Received August 30—8:30 a. m.]

1592. For Department and ECA. Question relocation generators (reDeptel 1159, August 11, repeated Tientsin 165, Shanghai 1465,

³⁹ Kailan Mining Administration.

⁴⁰ Airgram No. A-48 to the Ambassador in China, not printed.

Peiping 144) discussed by Embassy officer with Vice Chairman ⁴¹ of NRC August 16. Embassy now in receipt statement from NRC with request it be transmitted to Department for reference Eximbank. Copies of this statement, which we reasonably certain prepared by Trone,⁴² being airmailed ⁴³ without comments. Meanwhile NRC instructing its representatives discuss matter directly with Bank in Washington.

Copy NRC statement shown August 26 to Stillman who pointed out statement does not give definite indication that Chinese Government is itself taking constructive steps in North China situation other than with respect to Eximbank and other US financed projects. Stillman stated he would ask Yen Chia-ken, CUSA ⁴⁴ official acting as liaison for that body with ECA China Mission, to urge to Premier ⁴⁵ to make positive statement to Ambassador, with Chinese Ambassador in Washington ⁴⁶ making identical statement to Department and possibly also to ECA and Eximbank, to effect North China not being abandoned and stating that specific plans in mind for constructive action.

Sent Department 1592, repeated Shanghai 753, pouched Peiping, Tientsin.

STUART

893.6463/9-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 8, 1948—5 p. m.

[Received September 9—12: 59 a. m.]

1643. For Dept and ECA. Wu Chao-hung, Vice Chairman NRC, informed Embassy officer September 7 that Wong Wen-hao, President of Executive Yuan, had September 4 telegraphed to Chinese Ambassador, Washington, statement along lines indicated paragraph 2 Embtel 1592, August 30, repeated Shanghai 753. Statement, which Chinese Ambassador instructed to relay to Export-Import Bank and possibly also Department, said by Wu to include positive statement Chinese Government not abandoning North China economically and flat denial of removal industrial equipment from there to Central and South China. Wong has not yet given similar statement to Ambassador suggested by Stillman.

Sent Department 1643, repeated Shanghai 782, pouched Peiping, Tientsin.

STUART

⁴¹ Wu Chao-hung.

⁴² S. A. Trone, American adviser on industrial matters to the Chinese National Resources Commission and the Central Bank of China.

⁴³ Despatch No. 374, August 30, 1948, not printed.

⁴⁴ Chinese Council for United States Aid.

⁴⁵ Wong Wen-hao.

⁴⁶ V. K. Wellington Koo.

893.50 Recovery/10-1248 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 12, 1948—11 a. m.

[Received October 12—8 a. m.]

284. I understand from Mr. Cleveland⁴⁷ that ECA is reconsidering plans for North China as result letter from Army Department recommending against such assistance to North China on basis Army's estimate military situation.

Plans for three projects in North China (Kailan Mines, power command [*company and*] railway) were publicly announced by ECA and lifted local morale. If these plans are canceled or it becomes known that stop orders have been issued, it will be considered in North China as a definite breach of faith by United States; no explanation, no matter how plausible, would convince people in North China to contrary. North China, which already feels neglected by its own Govt, will then feel deserted by us. This might have serious political repercussions in China. It would adversely affect American interests and also make position of Americans in North China difficult.

Any such action would provide effective propaganda for Communists who would be expected to make good use of "US breach of faith" not only in China but quite possibly elsewhere.

I therefore urge that publicly announced plans be carried forward and that any serious modification which might become public be deferred until such time as we could not reasonably be accused of breach of faith.

We hope there is no thought of cancellation or modification at this time of ECA plans to send food to North China. In present mood of people, already bitter over sharply rising prices and food shortage, stoppage of ECA food supplies would make position of Americans here not only difficult but dangerous, as wrath of hungry people could be diverted from China authorities to American citizens.

With regard to military supplies, Chinese in North China would find it difficult to understand why US military supplies should be given Nanking, whose top generals have by repeated incompetence (most recently at Tsinan) allowed countless American arms fall into Communist hands, rather than to Fu Tso-yi, only top Govt general with proved ability and willingness to fight Communists. Chinese here feel if North China falls to Communists, all China will inevitably follow.

Respectfully suggest this telegram be brought attention Mr. Lapham⁴⁸ in Washington and Mr. Cleveland in Shanghai.

Sent Nanking 514, repeated Department 284.

SMYTH

⁴⁷ Harlan Cleveland, Director of China Aid Program, ECA.

⁴⁸ Roger D. Lapham, Chief of the ECA China Mission.

893.50 Recovery/10-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1948—5 p. m.

[Received October 14—7:21 a. m.]

1911. At request of Legislative Yuan, Premier Wong Wen-hao and CUSA member Yen Chia-ken appeared before Yuan at semi-closed meeting morning of October 12 for interpellation on US aid program. Following hour and half of speeches by Wong and Yen, numerous legislators spoke another hour and half heatedly criticizing Executive Yuan for past distribution of US aid. In general criticism levelled against allocation of aid to plutocrats and large factory owners, failure of Cabinet to consult with Legislative Yuan on aid distribution, threat to Chinese sovereignty in giving consideration to allowing foreign bottoms to transport relief supplies up inland waterways, neglect of large areas (particularly China's northwest) in favor of special localities, and slighting of fishing industry in aid allocation.

This marks first occasion Legislative Yuan has directly attacked Government on US aid program, although question has been touched obliquely in previous interpellation periods. Embassy believes this to be no more than passing phase in Legislative Yuan's constant attempt to check on all activities of government and insistence that it have its say in all matters large and small which concern national welfare. Fact that legislators opinions Government handling of US aid program were entirely critical without one word of commendation for Cabinet is worthy of note but not unusual since it harmonizes with general tenor of legislature sentiment so far this session.

None of criticism was directed at US unless complaint about Government consideration of foreign bottoms on inland waterways might be so construed. Equally, however, we noted absence of any expressions of gratitude or pro-American sentiment during debate on US aid program.

STUART

893.50 Recovery/10-1248 : Telegram

The Acting Secretary of State to the Consul General at Tientsin (Smyth) ⁴⁹

WASHINGTON, October 16, 1948—5 p. m.

194. From Lapham, ECA. Reurtel 284 October 12, 1948. Glad to report ECA does not have and has not had any intention alter plans assist North China. Despite serious military situation agree

⁴⁹ Repeated as telegram No. 1468, October 19, 6 p. m., to the Ambassador in China.

it important for reasons you state to continue not only food and raw material shipments but also plans for capital replacements. Following discussions here all concerned agree this policy. [Lapham, ECA.]

LOVETT

893.50 Recovery/10-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 26, 1948—11 a. m.

[Received October 26—5:59 a. m.]

1995. For ECA, Gordon⁵⁰ and Houston,⁵¹ from ECA, Griffin.⁵² Following is statement by Cleveland to be issued at press conference Shanghai 10:45 Thursday morning Shanghai time. Suggest simultaneous release Washington presumably hitting Thursday morning papers:

STATEMENT BY HARLAN CLEVELAND, DIRECTOR, CHINA PROGRAM, ECA,
WASHINGTON

I have been in China for about 4 weeks for the purpose of reviewing a number of problems affecting the operation of the ECA program in China.

The ECA program for China is off to an excellent start, so far as planning, ordering, procuring and delivering US aid are concerned. At the 6-month point, when the 1-year program is half over, we are actually farther along than had originally been predicted. Out of the 275 million, for economic aid, 204 million has been earmarked for commodities—food, cotton, petroleum and fertilizer. More than half of this has already been programmed, and about 100 million has actually arrived in China. On the industrial side, 60 million has been programmed out of the 70 million earmarked for replacement and reconstruction projects, plus 2.5 million in US dollars for the Rural Reconstruction Program.⁵³ A little more than 1 million has been set aside for administrative purposes.

Roger Lapham was the first Mission chief appointed by ECA, and both the US and China have been most fortunate to have Mr. Lapham in this important post. His indefatigable efforts, and those of his associates, in organizing the mission and pressing the program forward have been the major factors in the progress made so far. Mr.

⁵⁰ David L. Gordon, Deputy Director, China Program, ECA.

⁵¹ Bryon Houston, Director, Office of Information, ECA.

⁵² Robert A. Griffin, Special Assistant to the Chief, ECA China Mission.

⁵³ Administered by the Joint Commission on Rural Reconstruction in China, established under an exchange of notes on August 5 by the United States and China. Treaties and Other International Acts Series No. 1848, or 62 Stat. (pt. 3) 3139. For correspondence on negotiations preceding the exchange of notes, see pp. 601 ff.

Lapham, as you know, has been in Washington for policy conferences, and will be back in China next week.

We have been engaged particularly in reviewing here the important question of distribution and end-use of materials and equipment bought with ECA funds. Using American dollars to buy materials and ship them to China does not mean anything in terms of helping Chinese people until and unless the supplies are actually put to their intended use here in China. Materials in a warehouse in Shanghai are just as useless as materials which have never been bought in the first place. So, we and our Chinese colleagues have spent a lot of time and effort, during the last 5 or 6 months, in making sure that every dollar of ECA China funds is really put to work, [at] the ultimate point of use, for the most effective possible purpose.

We think that the distribution and end-use systems which have been set up in cooperation with the Chinese Government represent the best possible utilization of ECA aid under present conditions in China. The food is distributed through controlled rationing systems in major cities of China, and a careful record is kept of individual recipients of this aid. A system has been set up for following raw cotton through conversion into yarn, the conversion of yarn into cloth, and the subsequent export or domestic use of the resulting textiles. Petroleum is distributed primarily by major oil companies who themselves help to make sure that ECA financed oil goes only to the uses for which it is allocated. While final arrangements have not been made yet for distributing the fertilizer, the ECA Mission and the Chinese Government are working on this complicated problem to insure that fertilizer goes where it will have the maximum effect in increasing food production.

In arranging for procurement of all commodities, maximum reliance has been placed on the use of private channels for importing the goods. Thus only wheat, flour and rice are still brought in by direct action of the US Government; on everything else we function as a financing institution, and try to keep the US Government out of things that ought to be done by private business. We hope that arrangements can be worked out before long for shifting wheat and flour into private procurement channels as well.

From previous meetings with Mr. Stillman, you are familiar with the special formula set up for handling the Industrial Replacement and Reconstruction Program. A great deal of preparatory work has gone forward during the last few months on this program. Approved projects have been announced, project engineers are being selected by the successful applicants, and engineering work is proceeding on a number of projects. With the arrival of representatives of the J. G.

White Engineering Corporation in about a week the scheme so carefully set up will get fully under way.

The Replacement and Reconstruction Program represents a unique way of spending aid funds. It has not been tried in China before; it is different from the systems used in Europe or elsewhere. It puts a premium on careful planning and controlled use of equipment brought into China. We can think of ways to spend money faster, but we know of no way to spend money more effectively for the benefit of the Chinese people.

Since the appointment of the American members of the Rural Reconstruction Commission a month ago,⁵⁴ that Joint Commission has been engaged in exhaustive discussions of the program which it will undertake in tackling the gigantic problem of improving the lot of China's farm people. Again in this case, special emphasis is being placed on careful programming—foregoing apparently quick results in favor of careful preparation and modest, practical schemes. The purposes and objectives of this Commission, as released in its public statement a few days ago, have the full support of the US Government.

The American people are particularly impressed with the great difficulty under which the Chinese farmer labors, and the US Congress accordingly directed that a Joint Commission be formed in order to make sure that adequate attention would be given to helping rural people. America has great hopes for a broad rural reconstruction movement in China.

Our Economic Aid Agreement with China provides for a special account in local currency to be set up, matching the aid given to the Chinese Government by the US in dollars. Charges on this local currency account include our own administration expenses in China, the expenses of the Rural Reconstruction Commission, expenses in connection with importation of relief supplies by US voluntary agencies, and whatever internal costs of the Industrial Reconstruction and Replacement Program have to be met from or guaranteed by the special account. Over and above these expenses, the Chinese Government and the ECA have agreed on certain particularly significant projects in the fields of water conservancy, public health, and welfare, that deserve the special guaranteed support which the Chinese Government and ECA can give through allocations from this joint account. A part of the account will also be sterilized, in order to assist in reducing the Government's total budget expenditure.

There is one other problem that we have been discussing here. Congress has instructed ECA in its operations both in Europe and Asia

⁵⁴ Raymond T. Moyer and John Earl Baker, appointed by President Truman on September 16.

to promote the acquisition of materials needed by the US. In China's case ECA is attempting to secure larger supplies of tin, antimony and tungsten, and thereby, in a limited way, to make a two-way street of US aid. This procurement benefits the US, provides the Chinese Government with one more source of badly needed foreign exchange, and encourages the mine operators to increase production, and employ more Chinese workers.

In summary then, we believe that the plans laid and end-use controls established are securing the best value for the ECA dollar, in helping people and institutions within China, and in supporting the efforts of the Government to increase production and stabilize economic conditions. But present conditions in China do not permit us to assess the progress of the ECA program entirely in terms of its narrow effect in helping the immediate recipients of the aid. And the relative effect—that is, the total contribution of ECA and all other factors to improving the total situation—is much less encouraging.

At best, an aid program can have only a marginal effect on the situation within the country that is being assisted. In recognition of this fact, we have held with particular tenacity to two principles in administering the aid program for China:

1. Prices and rates affecting the aid program should be realistic. Rationed food should be sold at prices representing substantially market conditions; the same goes for cotton goods and for petroleum products. The same also goes for the price of coal, the rates for electric power, or the level at which any enterprise directly or indirectly assisted by ECA sells its product. The aid program should not be a subsidy program.

2. ECA's aid must be a supplement to, and not a substitute for, production and supply efforts by the Chinese Government, if its benefits are to reach the Chinese people. This is the "self-help principle" which has been repeatedly emphasized by Mr. Lapham.

It has become increasingly clear, particularly in the last few weeks, that the situation as it has developed in China, makes it increasingly difficult to administer an aid program based on these principles. The food ECA can bring in is no substitute for the huge quantities of domestic food that seem to be excluded from China's major cities at a time when this home-grown supply should be most plentiful. It is discouraging to us to see food scarcity at harvest time itself. Moreover, to sell ECA imports at low subsidized prices simply adds to the government's budget deficit; and it is this deficit which lies at the root of China's currency inflation.

On the industrial side, our replacement program is not intended as a substitute for the normal imports which China needs and for which China's own foreign exchange earnings are expected to be used. If,

in spite of ECA's efforts, the total amount of productive equipment imported into China is smaller than before, our contribution to the general situation will obviously be less significant than it otherwise would have been.

The fate of ECA's China program is, of course, bound up with the final upshot of current developments in China. Our purpose in China has been, and is now, to assist the Chinese people through their Government in every way possible in improving their livelihood, and in enabling them to shape for themselves the conditions under which they are to live and work."

[Griffin]
STUART

893.50 Recovery/11-648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1948—noon.
[Received November 6—12:42 a. m.]

2115. Lapham is today telegraphing Hoffman⁵⁵ requesting maximum delegation of authority over diversion ECA shipments, etc., to him in consultation and agreement with me. In this period of crisis in China it is only by according such discretion to those on spot that emergencies can be met as they arise and that effective use ECA supplies in interest of US Government be secured. Accordingly I urge that you support Mr. Lapham's request completely.

Repeated Shanghai 1044.

STUART

893.50 Recovery/11-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 7, 1948—10 a. m.
[Received November 6—11:40 p. m.]

2127. [For] Hoffman and Cleveland from Lapham. Arrived Shanghai evening 4th, conferred with Admiral Badger⁵⁶ Shanghai morning 5th and flew Nanking afternoon 5th with Griffin, Sumner,⁵⁷ Grant⁵⁸ accompanying. Full discussion with Ambassador and his key staff late same day and today, 6th, with Badger participating. Ambassador wired State Department,⁵⁹ information copy to you, on des-

⁵⁵ See *infra*; Paul G. Hoffman was Administrator of the Economic Cooperation Administration.

⁵⁶ Vice Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.

⁵⁷ John D. Sumner, Chief Economic Adviser, ECA China Mission.

⁵⁸ James P. Grant, Special Assistant to the Chief, ECA China Mission.

⁵⁹ Telegram No. 2117, November 6. 1 p.m., vol. VII, p. 542.

perate military situation. Ambassador agrees that food, fuel, and supply situation major cities at crisis stage resulting from virtual standstill internal Chinese distribution. Most goodwill and political benefits from previous American Aid China would be lost by failure to contribute within our means to food and fuel shipments when Chinese most in need. Ambassador's report under reference is basis for following request for delegation of authority you possess under statute to ECA Mission, as change of government is not only possible but probable at any time and no certainty what form it may take. We may also face a situation in one or more areas where there will be for a period no central authority and it will be necessary to deal with the *ad hoc* local government. No steps will be taken under requested delegation without complete concurrence Ambassador on policy aspects to insure that each decision serves the best interests of US.

(1) Freedom of action in reallocating unexpended funds including 70,000,000 previously earmarked for replacement and reconstruction exclusive of rural rehabilitation. We realize this is extraordinary request but is imperative due to rapidly moving situation.

(2) Authority to distribute ECA commodities in any area and under such terms as are deemed necessary and to divert ship movements to the extent feasible.

(3) Authority to draw upon local currency proceeds attributable to ECA commodities for purposes other than those originally planned so as to meet, for example, emergency food and coal shortages by local procurement.

Granting of above requests for delegation of authority must be kept secret from Chinese in Washington and here. I will, of course, keep you informed of all developments and only exercise requested delegation if time element makes prior reference to you impracticable. Ambassador concurs this cable and emphasizes necessity of complete secrecy. [Lapham.]

STUART

893.50 Recovery/11-748

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State*

[WASHINGTON,] November 8, 1948.

In Nanking's telegram 2127, November 7 (attached)⁶⁰ Mr. Lapham requests delegation by the Administrator of full discretion to take such steps, with the concurrence of the Ambassador, for drastic revision of the China Aid Program as he may feel necessary during the anticipated disintegration of the Chinese National Government. Am-

⁶⁰ *Supra*.

bassador Stuart urges in Nanking's telegram 2115, November 6 (attached)⁶¹ that the Department support Mr. Lapham's request completely.

It would be undesirable for the Department to be put in the position of opposing Mr. Lapham in this regard. However, Mr. Hoffman may believe that it would be very difficult for ECA to accord such discretionary authority to its field mission. For example, the legislative history of the China Aid Act imposes a strong obligation on ECA to implement the industrial replacement and reconstruction aspects of the China Aid Program, and Mr. Hoffman may consider that reconstruction funds could not be diverted without Congressional consultation. There would also appear to be serious procedural obstacles to major shifts in that portion of the ECA commodity program for which procurement authorization, largely through private trade channels, has already been made.

For our part, I do not see how the Department could possibly delegate responsibility to the Ambassador for concurrence with those actions proposed by Mr. Lapham which would have both domestic and international policy implications of great significance.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/11-948 : Telegram

The ECA Administrator (Hoffman) to the Chief of the ECA China Mission (Lapham)

WASHINGTON, November 9, 1948—9 p. m.

ECATO ⁶² 570. Reur 2127 from Nanking Nov 7 and Embtel 2117 Nov 6.⁶³ Reftels raise questions both of law and policy. Although urtel requests delegation certain authority, basic question is rather what authority I have as Administrator in case events foreshadowed Embtel 2117 occur during life present legislation.

2. Main legal problem is that under China Aid Act and bilateral agreement, decisions on allocation of funds, distribution and pricing of supplies, and deposits and use of local currency must be agreed between ChiGovt and US Govt.

3. As we see it now, ECA could not assist outright Communist Govt in China, and authority assist regional or private groups in absence agreement with recognized Central Govt is at best dubious. If there is a coalition govt, question will be how much it is dominated by

⁶¹ *Ante*, p. 645.

⁶² Symbol used by ECA to identify telegrams sent by its Headquarters Office to its field establishments.

⁶³ Vol. VII, p. 543.

Communists. If seat of present National Govt is moved, we could continue to deal with it and provide assistance desirable from policy standpoint.

4. Administrator of course has authority under Act and bilateral agreement to stop assistance any time. We are presently studying exact point at which current assistance already authorized for procurement or shipment could be stopped as practical matter.

5. Following is reply your requests for delegation of authority:

a) Actual financial steps involved reallocation unexpended funds must be taken Washington. We are prepared to act urgently on proposals for such reallocation as you think required. See no justification at this time for increasing rate of expenditures and deliveries. Additional funds probably unavailable before March at earliest, and would be unfortunate for us to be left fundless at time when allocation of funds for some particular purpose might give us effective means of influencing events in China. You should therefore plan to continue substantially present spending rate on Commodity Program.

b) With regard distribution ECA commodities, believe you should try to make arrangements with Govt for distribution by ECA direct to provincial or municipal authorities when and if this becomes necessary. As to food, which remains in hands of US Govt until arrival in Chinese ports, you authorized seek agreement with existing authorities for title to remain in ECA after arrival at port and for distribution to be at discretion ECA, bearing in mind legal necessity operate always under terms of Act and bilateral. As to other ECA commodities, imported through commercial channels, you authorized to make whatever arrangements with importers and distribution agencies are feasible, bearing in mind need for covering agreement with Chinese authorities on arrangements made. Suggest you explore possibility repossessing cotton now in hands CTI,⁶⁴ for distribution under direct ECA control, to forestall possible breakdown present joint control system or seizure of stockpile by Communists. Believe it important to keep at minimum stockpiles in areas subject to possible early capture, to avoid large windfalls to Communists. In view of this consideration suggest desirability spacing wheat/flour cargoes for Tientsin, now all scheduled arrive before Feb 1, over longer period. Please comment.

Your rerouting ship movements authorized in case of food. We will notify USDA⁶⁵ and CCC⁶⁶ to abide your instructions and inform agents and masters of all ships carrying ECA cargoes accordingly. Rerouting other types commodities handled through commercial channels raises problems which probably need to be tackled case by case. Suggest that if there is question rerouting cotton, fertilizer or petroleum shipments, you work directly with importers, informing us of necessary financial and other arrangements to be made through banks and shippers here.

c) Cable on local currency follows.⁶⁷

⁶⁴ China Textile Industries.

⁶⁵ United States Department of Agriculture.

⁶⁶ Commodity Credit Corporation.

⁶⁷ ECATO 584, November 13, 3 p. m.; it approved "your agreeing with Chi Govt to use of funds out of Joint Acct for emergency purposes such as procurement of food and coal." (848 ECA Joint Acct).

6. On industrial program for North and Central China suggest you drag feet until picture clarifies.

7. Please report fully, currently and in detail on each action taken or prepared to be taken under authority contained this cable.⁶⁸

HOFFMAN

893.50 Recovery/11-1348: Telegram

*The ECA Administrator (Hoffman) to the Chief of the ECA China Mission (Lapham)*⁶⁹

WASHINGTON, November 13, 1948—3 p. m.

ECATO 586. For your info State Dept has made clear to us Dept cannot delegate to Ambassador type discretionary authority to consult and agree on actions which affect present and future political relationship with Chinese authorities, and have diplomatic and political implications in US relationship with other countries, which you apparently assumed Ambassador had in Nanking 2127⁷⁰ as confirmed by Ambassador's 2115 Nov 6.

2. In delegating emergency authority believe we must make distinction between (a) authority to operate on matters of type dealt with ECATO 570, on which I wish Mission to have widest latitude possible within authority vested in me as Administrator and (b) matters with far-reaching significance in terms of future US policy on China, and in terms of immediate relationship to Chinese political factions including Communists. This latter type decision exemplified for example by problem maintenance ECA staff North China in event Natl Govt loses control of Peiping-Tientsin corridor (ref para 3 TOECA 287 [387]⁷¹ substance of which will be replied to separately). On this second type decision, emergency situation requires more rather than less centralization of policy decision, particularly in view of military and political actions ECA may take and current consideration by Natl Security Council and President of China policy as a whole.

3. As situation develops, I am relying on you to keep me currently up to date on developments, their ECA implications, and all matters that may affect US policy.

[HOFFMAN]

⁶⁸ This telegram was cleared for the Department of State by Mr. Butterworth. In telegram No. 1597, November 11, 2 p. m., the Department requested the Ambassador in China to "note ECATO 570". (893.50 Recovery/11-648)

⁶⁹ Telegram repeated to the Ambassador in China.

⁷⁰ November 7, 10 a. m., p. 645.

⁷¹ Not printed. The symbol "TOECA" was used by the ECA to identify telegrams sent by its field establishments to its Headquarters Office.

893.50 Recovery/11-1748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 17, 1948—noon.

[Received November 17—1:44 a. m.]

2240. For ECA, Hoffman and Cleveland from Lapham. [Re] ECATO 586. Sorry now my 2127 was ever sent if State Department interpreted it to imply asking for extraordinary delegation of power to Ambassador. Neither he nor myself had ever any such intention and I cannot help but feel State Department has read into 2127 much more than there is any justification for.

Under circumstances please consider 2127 as never sent. [I will] continue asking for specific instructions and authority but remind you communication systems here jammed causing delays and our own staff swamped. Hereinafter shall not attempt continuous contact with Ambassador particularly in view State Department fear of involvement. Returning Shanghai this morning and will use best judgment from now on making any emergency decisions which may be called for from day-to-day.

Please repeat State Department. [Lapham.]

STUART

893.50 Recovery/11-1748

*Memorandum of Conversation, by Mr. Richard E. Johnson of the
Division of Chinese Affairs*

[WASHINGTON,] November 17, 1948.

Participants: Mr. Meiklejohn ⁷²-ECAMr. Magill ⁷³-CA

Mr. Johnson-CA

Mr. Meiklejohn of ECA was telephoned Tuesday for an explanation of the changes in ECA's commodity shipment program implied in recent ECA telegrams ⁷⁴ concerning the shipment of coal to Tsingtao and the diversion of funds programmed for fertilizer to finance increased purchases of cereals.

He stated that Mr. Lapham had received a request from ECA representatives in Tsingtao for an emergency shipment of coal. Because Communist military operations were impeding the flow of coal from the Kailan mines, Tsingtao was faced with a power shutdown which would affect installations upon which the U. S. Navy is de-

⁷² Norman J. Meiklejohn, member of the ECA China Mission.

⁷³ Robert N. Magill, of the Division of Chinese Affairs.

⁷⁴ Not found in Department files.

pendent. Mr. Meiklejohn understands that Mr. Stillman has succeeded in obtaining an advance of 15 thousand tons of coal for Tsingtao from SCAP,⁷⁵ as reported in telegram ToECA 397 November 11 from Shanghai,⁷⁶ which would be reimbursed by ECA procurement in the U. S. Mr. Meiklejohn has requested that the ECA Mission prepare an estimate of total emergency coal requirements which ECA might have to meet. He advised us that the coal shipments for Tsingtao presently planned would cost in the neighborhood of \$300,000 and that these funds would be taken from reconstruction projects.

Mr. Meiklejohn was asked whether the Mission's proposal for the diversion of funds from fertilizer for emergency purchases of food would mean a speed-up in the expenditure of China aid funds. He replied that the money would be taken from allocations for the present quarter only, and that no acceleration of the rate of expenditure was involved. He added that ECA Washington is arguing against cancellation of fertilizer and is considering the release of \$5 to \$10 million from the reconstruction program for emergency procurement of food, et cetera.

Mr. Magill stated that we would appreciate being informed in advance of any action which would have the effect of a substantial speeding up of deliveries.

893.50 Recovery/11-1848

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 18, 1948—3 p. m.

[Received November 18—7:04 a. m.]

2250. From Deptel ECA to 586, November 13 sent Shanghai, repeated Nanking, it appears Department misinterpreted our 2115, November 6, repeated Shanghai 1044, regarding increased discretion to Lapham for use in emergencies. See also Lapham's 2240, November 17 to Department, sent from Nanking. 911 we had envisaged was wide discretion at operational level. We specifically mentioned "authority over diversion ECA shipment". There was no intention our part usurp prerogatives of Department in respect of high policy decisions.

Sent Department, repeated Shanghai for Lapham from Merchant⁷⁷ as 1124.

STUART

⁷⁵ Supreme Commander for the Allied Powers, Japan.

⁷⁶ Not printed.

⁷⁷ Livingston T. Merchant, Counsellor of Embassy in China.

893.50 Recovery/11-2448

The Consul General at Peiping (Clubb) to the Secretary of State

No. 157

PEIPING, November 24, 1948.

[Received December 13.]

SIR: I have the honor to refer to this Consulate General's telegram No. 488 of even date ⁷⁸ in regard to the policies of ECA in North China after the hypothetical occupation of this area by the Communist forces and to enclose as of possible interest in this general connection a copy of a memorandum of conversation of November 1, 1948 between Mr. Robert Allen Griffin of ECA and myself on the subject.⁷⁹

The substance of that memorandum as far as recommendations are concerned, was contained in this office's reference telegram. The essential motivation for the argument is (1) that belief that a discontinuation of ECA food supply upon the change in political complexion of this area would result inevitably in an unfavorable popular reaction against the United States, and (2) my further estimate that the experimental continuation contrariwise of that food supply program would possibly give the United States Government a *point d'appui* for the exercise of American policy vis-à-vis the new situation which would have developed in North China. The United States Government will inevitably remain technically interested in this area by the probable circumstance that there would evidently remain behind in this area, after the postulated fall of the Nationalist power, American interests of both missionary and commercial character. It is to be noted that ECA's remaining in North China on a tentative basis would by no manner of means in the first instance commit the United States to any considerable political or economic investment to be extended through ECA, that such continuation could be put entirely on the basis of the principle that ECA would continue only insofar as its activities were facilitated and the United States got what would be considered a proper return for its effort, that if the experiment failed ECA could then withdraw—pointing out that it had endeavored to render assistance but had been unable to continue because of (say) lack of cooperation from the Chinese Communist side; but that withdrawal of ECA from the area on the eve of Communist occupation would (a) create the aforementioned supposed bad impression and (b) make it from the practical standpoint more difficult in the future for the United States Government to cause the return to this area of ECA or other relief organs or otherwise to expand its official establishment in this area.

⁷⁸ Dated November 26, *infra*.

⁷⁹ Not printed.

The attention of the Department is further invited to the circumstances that, with the breaking down of the economic cordons which at the present time keep the grain in the countryside from moving freely into the Nationalist-held towns, the actual amount of relief foodstuffs required by this region after Communist occupation would in all probability be considerably reduced; and that the program is scheduled to terminate April 3, 1949 in any event. Continuation would seem to offer little risk for a possible gain which, if problematical, might be discovered not unsubstantial.

Respectfully yours,

O. EDMUND CLUBB

893.50 Recovery/11-2648 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, November 26, 1948—9 a. m.
[Received November 26—2:51 a. m.]

488. Re Deptel November 13, 8 p. m.⁸⁰ Would tentatively suggest for consideration Department that ECA program North China should be continued after hypothetical Communist occupation this area in so far as concerns food and medical supplies, to such degree as may be necessitated by needs of population in so far as compatible with original allocations. Despatch follows.⁸¹

Observe indications are that actual needs population for both categories relief supplies would continue in some degree after such occupation since (1) North China normally experiences certain food deficit which can be made up only by import flour and grain supplies, and (2) major part medical supplies are ordinarily imported and Communists are notoriously short of such supplies.

Proposal based upon following considerations: 1, it is believed continued food supply to local population in need which population would not have changed fundamentally in character by bare fact of political turnover would be outwardly called off [*for*] on humanitarian grounds; 2, from political standpoint continuation such supply would indicate ECA program was at least in part designed to alleviate sufferings Chinese people as whole and was to that degree non-political thus giving American policies point of support in North China which might prove of considerable value. It is, of course, assumed ECA economic projects designed to effect rehabilitation and strengthening of economy this area would properly be discontinued pending reassessment postulated new developments.

Sent Department, repeated Nanking 722.

CLUBB

⁸⁰ ECATO 587, not printed; it indicated the view of ECA that "in event Communist takeover believe all ECA personnel should be removed except to extent strictly necessary to protect ECA supplies then on hand Tientsin." (Nanking Embassy Files, Lot 55 F 174-800 China Aid)

⁸¹ Despatch No. 157, November 24, *supra*.

893.50 Recovery/11-2648 : Telegram

The Chief of the ECA China Mission (Lapham) to the ECA Administrator (Hoffman)

SHANGHAI, November 26, 1948—6 p. m.

[Received November 27—4: 14 a. m.]

TOECA 499. Supplementing TOECA 452.⁸² Because possibility consideration may be given discontinuing procurement and shipment commodities particularly food to areas now aided by ECA and to extent that Nationalist Govt loses control of such areas we make following comments. Emphasize our evaluations based from point of view our front-line operations China. Questions relating industrial reconstruction replacement program involve somewhat different issues than commodity program and will be commented on later in separate cable.

1. One cannot fail to be impressed with general effectiveness of Communist propaganda line to effect that aims of US in China are purely imperialistic, and that US has no real interest in welfare of Chinese people. This line is especially effective in country whose people quite naturally desperately weary of war. With many literate non-Communist Chinese, US aid has become increasingly blamed as enabling Govt, which has lost confidence of majority its people, to continue civil war which has become increasingly unpopular with each Communist victory.

2. Political interpretation to us by Embassy members suggest it unlikely that Govt of China will change hands through constitutional processes. To our knowledge there is little evidence President⁸³ will voluntarily accept Communist terms for reorganization govt along lines inclusive his resignation and construction of Cabinet with Communist members. Nor does it seem probable that there will be *coup d'état* by influential members present Govt, which would overthrow Generalissimo and bring forth non-Communist central govt of sufficient power and prestige to command widespread support for continuation struggle. Rather it would appear that Generalissimo will attempt last ditch stand, that non-Communist fragments may long remain in some areas, and a new govt either wholly Communist or inclusive non-Communist members will soon control most of China. Anything may happen. But probabilities are that in coastal cities other than possibly Canton and Tsingtao we may very soon be confronted with Communist or Communist coalition accession to power outside the constitution of Republic. North China under Fu Tso-yi may be temporary exception.

⁸² Not found in Department files.

⁸³ Generalissimo Chiang Kai-shek.

3. If this forecast proves correct, ECA will be confronted abruptly with certain choices. Shall it:

(a) Complete present commodity program subject to minimum of conditions, including publicity as to source of supplies granted Chinese people, freedom of activity to ECA personnel, and cooperation in completion present distribution arrangements?

(b) Carry out policy (a) only to extent of permitting distribution foodstuffs and other commodities already landed or en route to China?

(c) Cancel or divert all future shipments including those en route China, while turning over to local authorities goods already landed, or

(d) Carry out policy (c) and also attempt to reclaim physical possession goods already in China?

4. Policy outlined in 3 (a) above will be most positive evidence to people China that aid program is in fact more than program economic warfare with sole purpose halting iron curtain. It would be in tradition of original Marshall Plan ⁸⁴ premised upon importance to US and world of aiding necessary economic recovery of peoples, and which consequently was offered to countries irrespective ideologies. It would be most effective counterpropaganda US could employ in China. It must be remembered that most Chinese people will not have selected Communist or part Communist govt by their own choice, but through force of arms; and many who joined Communist ranks did so from dislike present Govt, not from love of communism. Important to remember there will remain in China able and influential persons and groups who do not support international communism subservient Moscow; in fact many do not favor even national socialism. Competent analysts generally agree that Communist control initially can only be superficial in newly acquired areas, and that future ability of communism especially international communism to dominate China will depend among other things on will of non-Communist groups and persons to resist. Immediate adoption such policy as 3 (d) might prevent maintenance contact these groups and seriously undermine will to resist. These are major factors support policy 3 (a).

5. Against policy 3 (a) it would seem from here that three considerations are important. First that abrupt cancellation all assistance would, by increasing initial difficulties Communist rule in coastal cities, immediately impress on people the importance overthrowing such rule and turning again to western alignment. This argument does not appeal to us here. Combined influence in competent national government administration and unavoidable burdens of civil war have been so great that weakness Communist or coalition control

⁸⁴ Made public by the Secretary of State at Commencement exercises at Harvard University on June 5, 1947; for text, see Department of State *Bulletin*, June 15, 1947, p. 1159. For documentation, see *Foreign Relations*, 1947, vol. III, pp. 197 ff., under the title "The Political and Economic Crisis in Europe and the United States Response".

would not immediately be demonstrated to people. It seems likely that end civil war may quickly bring an improvement in people's temporary status. Must be admitted, however, that new Government would have easier immediate situation coastal cities if ECA supplies continued to April 3. Second consideration that weighs against policy 3 (*a*) is that willingness ECA continue assistance under current appropriation may weaken will of non-Communist Governments western Europe to resist coalition efforts those countries. From distance we doubt this. In western Europe ECA has not generally been confronted with civil war; it presumably has used threat discontinuance aid as means persuading European countries not voluntarily to establish coalition or Communist Governments. In China decision will have been made not by free choice but by force of arms in situation where position established Government will have been lost through incompetence and unwillingness to make necessary reforms. Third, may be argued that ECA continuance food and/or other commodity program under present legislation will backfire if US then refuses aid beyond current appropriation. Merit this objection depends primarily character US strategy. If new Government accepted conditions of present bilateral, which in fact incorporates general US foreign economic policy, result would be breach in Moscow policy which has deprived satellites of Marshall Plan aid and would greatly strengthen western influences China. If new Government refuses these customary stipulations, onus would be on it, not on US. If US refuses additional appropriation, result would remain better than adoption of 3 (*b*), (*c*), or (*d*); it could be stated publicly that take-over record of Communists in coalition governments throughout world made US unable continue aid, that aid program had been deliberately one year only and completion commodity or food aspects that program had been only for emergency aid Chinese people.

6. Policy 3 (*d*) above is opposite extreme from 3 (*a*). In US such policy may be politically advantageous in that it would emphasize ECA unwillingness have any truck with Communist or semi-Communist Governments. In western Europe it would emphasize importance maintaining completely non-Communist position if American aid is to be secured. In China and world, however, it would be most convincing proof Communist propaganda line that American assistance motivated solely by political and military considerations. That line is simply not true as will be recognized by all those aware of complex considerations that have led US to advance various types foreign assistance during postwar period.

7. In any event policy 3 (*d*) faces great practical difficulties in China. If ECA obtains title to aid commodities already landed and

attempts enforce title against desperate needs for food and fuel it can hardly be expected that new Government would let US get away with it. If ECA goods were seized regardless of title Communist or coalition government would receive popular credit while US would be labelled effectively as in no sense interested people's welfare.

8. Policies 3 (b) and 3 (c) above represent compromise solutions and merits can be inferred from evaluation of 3 (a) and (d). Policy 3 (b) represents least could be done and still maintain modicum of popular Chinese respect for American motives. (c) Would be regarded as niggardly policy and might well be interpreted merely American recognition practical inability to retain control aid commodities already landed this country. Policy 3 (b) therefore superior.

9. You will have guessed which above policies I hope will be adopted unless there are strong considerations in terms either ECA policy western Europe or with Congress that you believe override factors that seem so important here. Policy 3 (a) represents my considered opinion of what is in best interest American foreign policy China and my opinion is shared by principal members mission as well as, I believe, by Ambassador.

10. If statutory reasons appear to make such policy difficult, hope you will have legal interpretation rechecked and if necessary carry matter to President and such members Congress as you may deem appropriate. Tentatively believed here that while bilateral is only with recognized Government, it might well be possible quickly to arrive at limited understanding with local authorities or new Government which might lawfully be regarded under emergency conditions as substitute or supplement to existing bilateral. Existing bilateral could continue in effect to extent present or recognized Government controls territories in which commodity assistance has already been scheduled such as Taiwan, Tsingtao, Canton or North China. It would appear, moreover, there is nothing in statute as such which makes impossible for ECA with concurrence Department State or with approval President, to extend aid people of China who find themselves placed under control new political administrations provided working arrangement with *de facto* authority can be arrived at. Occurs to me such arrangement might consist not of bilateral document such as presently exists but rather a statement limited conditions under which ECA would substantially complete present commodity program, especially food.

11. Alternative solution is possible amendment bilateral under which present recognized government authorizes ECA emergency assistance areas over which it temporarily loses political control. *Quid pro quo* for such amendment would be ECA willingness publicly

to give credit recognized government's action in safeguarding minimum needs its population in occupied cities. This alternative mentioned only as last legal resort as it would put US foreign policy at mercy Chinese Government.

12. Conditions ECA assistance could be made publicly known through radio broadcasts and otherwise. If new political authorities refuse acquiescence such conditions their refusal would be made known. Such refusal would make it clear literate Chinese that once again Communist policies had deprived people of US assistance. Acquiescence such conditions on other hand would constitute significant break international policy line of Moscow and would serve to encourage nationalistic sentiments most Chinese.

13. Position taken this cable summarized as follows:

(1) Communist or coalition Government will not have thoroughgoing control population which at least potentially hostile and not sympathetic to ideology international or even national communism. Right US policy in fact may prevent establishment thoroughgoing control and especially control those subservient Moscow.

(2) Immediate termination entire aid program would temporarily increase difficulties new government but not sufficiently to lead to its collapse. Such termination would, however, prove to popular satisfaction truth Communist propaganda.

(3) By limited emergency aid US would have relatively little to lose and perhaps much to gain.

14. Would appreciate your comments above recommendations. Needless to say, we are proceeding further in consideration particular conditions which should be stipulated unilaterally if policies (a) or (b) receive approval.

Also emphasize that above recommendations relate only to commodity assistance under present act and that somewhat different considerations relate to industrial program, as well as to any possible assistance under new legislation. More about these matters later.

Sent Washington; pouched Nanking.

LAPHAM

893.50 Recovery/12-748

*The Director of the ECA China Program (Cleveland) to the Chief of the ECA China Mission (Lapham)*⁸⁵

WASHINGTON, 2 December 1948.

DEAR ROGER: I have just come back from the first full meeting which the Congressional "Watchdog" Committee⁸⁶ has had. China is very

⁸⁵ Copy given by Mr. Cleveland to Philip D. Sprouse, Chief of the Division of Chinese Affairs. Letter obviously was written on or after December 3.

⁸⁶ The Joint Committee on Foreign Economic Cooperation, established under section 124 of the Economic Cooperation Act of 1948, approved April 3, 1948; 62 Stat. 137, 156.

much in Mr. Hoffman's mind since he is leaving tonight for his visit with you. So in discussing the ECA Program informally with the Committee, he led off on China. The main point he raised was a continuation of the discussion here during the last few days on your long cable TOECA 499, so I had better start by filling in the background on that.

The general reaction to TOECA 499 was the same as yours—that is, to favor alternative 3 (*a*) in the cable. I might add that everybody who read the cable, including the people at State, commented on the careful and thorough manner in which the alternatives had been laid out, and on the force of the arguments you presented in favor of 3 (*a*).

Mr. Hoffman's reaction being favorable, he told us to draft a memo for the President which he would discuss first with General Marshall. The draft memo for the President is now a dead duck, as you will see from what follows; however, I am attaching a copy of it⁸⁷ to give you a concrete idea of the various stages through which this matter passed.

The next day, Alec Henderson,⁸⁸ Charlie Stillman, and I accompanied Mr. Hoffman to a meeting with Messrs. Lovett,⁸⁹ and Butterworth—General Marshall being sick in the hospital. While Mr. Hoffman did not produce the draft memo to the President, he indicated that his point of view was in agreement with yours. He indicated also, in the meeting, that in his opinion the result of continuing relief assistance in areas over which the Communists might assume control would be that before too long—say thirty to sixty days, the aid program would be shut off because of violations of ECA's distribution principles (the principles set forth in your alternative 3 (*a*)).

Mr. Lovett had clearly considered the problem quite carefully with key members of his staff, particularly Walt Butterworth and George Kennan.⁹⁰ He indicated that in the State Department opinion there was little possibility of "getting away with" direct distribution in Communist areas, given the legislative intent of the Act under which ECA is operating in China. He seemed to see no objection to distributing to end-users the supplies already available in the area that might be taken over, but raised a mild question about transporting to the destination supplies that might be afloat for such areas.

The upshot of the discussion, as I got it, was that (*a*) supplies already in areas taken over should be distributed anyway, (*b*) if the recognized Government of China flees to some point other than Nanking but requests continuation of assistance to areas taken over by the Communists or a Communist-dominated coalition, this might well be

⁸⁷ Not printed.

⁸⁸ Alexander I. Henderson, General Counsel, ECA.

⁸⁹ Robert A. Lovett, Under Secretary of State.

⁹⁰ George F. Kennan, Director of the Policy Planning Staff.

done; the purpose of doing it would be to convince the Chinese people that the aims of our economic assistance are not imperialistic and to make sure that the onus of stopping relief assistance falls on the Communists rather than us, and (c) if the Communists or a Communist-dominated coalition takes over as a legal successor to the present Government of the Republic of China, aid might likewise be continued under the bilateral agreement (which would still be in force with such a Government) on the assumption that it would probably have to be stopped before long because of violations of the bilateral and that in any case, it would not last beyond the first quarter of 1949.

Discussion with the State Department did not produce what I would call a firm line of policy. The difficulty in considering this question, of course, is compounded by the fact that there has been no determination as to the general policy which this Government will pursue in the changing situation in China created by recent Communist military successes. Many of Mr. Lovett's comments were in terms of what was feasible or desirable from the standpoint of Congressional and public reaction in this country, rather than what was desirable purely from the standpoint of our relationship with China or the Chinese people.

A meeting of the Congressional "Watchdog" Committee had been scheduled for the following day, Friday 3 December. Mr. Hoffman asked us to draft a new document, stating alternatives but no recommendations, which could be used if necessary in connection with the committee's discussion. This document is also attached;⁹¹ it likewise was not used in the meeting for which it was written, but it gives an indication of the thinking behind Mr. Hoffman's extemporaneous remarks to the Committee on the subject of China.

In speaking to the Committee, Mr. Hoffman dwelt particularly on points (b) and (c) above, and most of the discussion revolved around the conditions in point (b). Several Committee Members made it clear that they considered it Mr. Hoffman's decision under the Act. Senator Connally (Texas) and Senator Lodge (Mass.) stated clearly that they thought Hoffman's general point of policy was correct—i. e., that aid should not be stopped immediately, but continue in order to give the lie to Communist propaganda about the imperialistic aims of our economic assistance. Congressman Tabor (N. Y.) indicated that he didn't think any advice could be given to Mr. Hoffman on this point at the meeting. Senator H. Alexander Smith (N. J.), who was presiding, did not express an opinion. I got the impression that Representatives Bloom (N. Y.) and Cannon (Mo.) were likewise noncommittal but that Representatives Vorys (Ohio) and Fulton

⁹¹ Not attached to file copy: it may be the memorandum prepared in the Economic Cooperation Administration, December 3, on "Aid-to-China Policy," not printed.

(Penn.) had no objection to the proposed line of policy. I would not swear to these attitudes since the discussions were somewhat diffuse and it was difficult to tie down any specific points of view, except those of Connally, Lodge, and Tabor. In the course of the discussion, Representative Bloom asked how much of the food sent to China by ECA really was properly used. Mr. Hoffman indicated that some pretty hard-boiled people, including yourself, were reasonably well satisfied with the way the rationing system worked in the cities of China where ECA food is being distributed. He then passed the ball to me, and at Senator Lodge's request I gave a general description of the rationing procedures. (Incidentally, it would be very helpful if Al Hurt⁹² or somebody could prepare a detailed statement of these procedures, with any variations by city, and with exhibits in the form of ration cards, forms, etc., which could be used in connection with Congressional hearings this winter. Every time I have gone up to the Hill on the Program during the last eight months, somebody has asked substantially the same question that was asked by Bloom. It would also be helpful to have the overall percentage of effectiveness of the food distribution program. I have been tempted to use some figure like 80 or 90% as representing the amount of food that actually gets to the people who are supposed to get it. My impression is that it is no lower than that, and some places may be higher. Do you think that we should adopt some such percentage and use it when we are asked this question, as we inevitably will be in each Hearing about China?)

There was considerable interest expressed in the description of the rationing systems; special interest was evidenced in my comment that the people who are getting the food know that it is part of a program in which U. S. aid plays a large part. On this point, mention was made of statements on the ration card referring to U. S. aid,⁹³ and of the publicity given on your recent efforts to increase the emergency food supply of Shanghai.

I am writing this letter as a substitute for a cable on this subject, since Mr. Hoffman wants to discuss the whole problem with you when he arrives in about a week. In concluding this saga I should like to recommend most warmly that you go on sending in cables on policy questions like TOECA 499. For better or worse, most policy questions do not get pointed up and come into focus except in response to some immediate needs for an answer to some particular question. To put it another way, a crisis seldom becomes a crisis until a cable needs to be answered on the subject. Maybe this is one of the unwritten principles of bureaucracy.

⁹² Alfred M. Hurt of the ECA China Mission.

⁹³ Marginal notation: "On which I was way off base".

Your cable on the visit of Madame Chiang Kai-shek,⁹⁴ by the way, was read with considerable interest and agreement by Mr. Hoffman and others around here, including myself. Madame Chiang has so far limited her contacts to the President and the Secretary of State. We are standing by to answer any questions which may be asked about economic assistance in connection with her visit, but so far, we have not been called on the stage. Mr. Hoffman did not see the lady before she departed.

One other vignette on the current policy discussions about China; the National Security Resources Board was much taken with my memo Aid-to-China Policy IV,⁹⁵ as I think I may have indicated before. National Security Resources Board circulated this memo to the National Security Council consultants, and then proposed that it be adopted as policy recommendation to the full Security Council. This procedure was objected to by the State Department representative, George Kennan, and I am not just sure where the matter stands at the moment. Generally speaking, the idea of a very flexible new Act⁹⁶ has gained considerable amount of currency in Washington; but what will happen next I would not venture to predict.

Going back to the State and Congressional discussions, in the course of all these discussions Perc Cowan⁹⁷ suggested that the desired flexibility might be achieved by extending to a large part or all of the remaining uncommitted China Aid funds, the procedure contemplated by ECATO 641⁹⁸ for handling the \$1,000,000 emergency program fund. This possibility is mentioned in the attached memo of 3 December (the one that was prepared for, but not submitted to, the Congressional Committee group.) I would like very much to get your reaction to this proposal; perhaps you will want to include your proposal with the rest of the problem in your discussions with Mr. Hoffman when he arrives.

Sincerely yours,

HARLAN CLEVELAND

893.50 Recovery/12-448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 4, 1948—2 p. m.

[Received December 5—6 : 35 a. m.]

2414. We cannot agree with basic recommendation TOECA 499, November 26, in which Lapham recommends to Hoffman that in event

⁹⁴ For correspondence on Madame Chiang Kai-shek's visit to the United States at this time, see pp. 296 ff.

⁹⁵ Dated November 8, not printed; for summary, see undated memorandum by Messrs. Magill and Johnson, p. 681.

⁹⁶ See section entitled "Preparation of Program for Continuation of Aid to China After Expiration of the China Aid Act of 1948," pp. 668 ff.

⁹⁷ Percival E. Cowan, Consultant, Office of the General Counsel, ECA.

⁹⁸ November 24, 8 p. m., not printed.

Communist or Communist-dominated coalition government takes over control most of China ECA should complete present commodity program subject to certain minimum conditions. This would prospectively involve supply of food, fertilizer, cotton and petroleum products until April 3, 1949, in areas under dominant control of Communists who have publicly stated that US, by its assistance to the present Government, has committed acts of hostility to the people of China. To assist by such gifts, the Communists to tide over the critical early days of take-over seems clearly contrary to our interest. We agree that ECA commodities already landed, in process of unloading or aboard ships in harbor, should be turned over to local authorities for distribution under best conditions extractable at the time. We certainly agree that to attempt to reclaim ECA commodities already in Chinese hands would be thoroughly impracticable.

As we have said before, we believe the sound policy, in event of extension of Communist control or take-over of Nanking Government by Communists or Communist-controlled coalition would be immediate announcement in Washington of suspension all further ECA aid in such areas pending re-examination of entire situation.

Reference paragraph 11 of reftel, Embassy strongly opposes any effort to modify bilateral with present Government in direction suggested.

Unless China aid is, contrary to our understanding, exclusively humanitarian in purpose, we can see no basis for donating commodities, including such valuable ones as oil, to those who have publicly denounced our aid program as "an act of hostility against the Chinese nation and the people of China."

STUART

893.50 Recovery/12-1448 : Telegram

*The Consul General at Shanghai (Cabot) to the Economic
Cooperation Administration*

SHANGHAI, December 14, 1948—4 p. m.

[Received December 16—8:06 a. m.]

TOECA 621. [For] Davis⁹⁹ Peiping and Ivy¹ Tientsin from Lapham. Following instructions your marching orders pending arrival final instructions from me or ECA Washington:

a. During an interim period following possible abandonment your area operations Nationalist Government authorities and prior to take-over such area by other forces:

⁹⁹ Ritchie G. Davis, Special North China representative of the Chief, ECA China Mission.

¹ James T. Ivy, Regional Director, ECA China Mission.

1. ECA should not in absence of serious danger to its personnel terminate its operation prior such takeover.

2. In preparation for such interim period cotton, medical supplies and food stocks should immediately be housed to extent feasible in non-Chinese warehouses.

3. To extent permitted local conditions without jeopardy safety your staff continue presently scheduled operations regarding rationing.

b. Subsequent to takeover your area you should not attempt repossess or remove commodities from area. You should in close cooperation with Consulate General seek immediate understanding with *de facto* local authorities on following terms under which ECA commodities already landed or in Taku Harbor will be discharged or distributed. It should be made clear that no question even of implied diplomatic recognition involved. There should be no written agreement, only memorandum given *de facto* local authorities stating conditions under which ECA assistance may continue. Conditions as follows:

1. Freedom of inspection by American or non-American staff ECA to determine whether stocks of such commodities are in fact being used and distributed for purposes and in manner stipulated by ECA.

2. Freedom of movement of American and non-American personnel of ECA within geographic area within which such commodities being distributed and used.

3. Freedom of ECA American and non-American personnel, personal effects, vehicles, living and office space, and equipment used by them from search or seizure.

4. Granting of such local publicity, newspaper coverage, radio, posters and signs or packaging as necessary or desirable, identify clearly source of supplies and fact they being provided by US dollars for benefit Chinese people. It of course clearly understood that no such public statements will contain any incitement to public disorder.

5. Local authorities shall provide local currency required for administrative purposes on your certification of need. End of terms.

Distribution of these goods should be carried out even if Nationalist Government remains in existence other regions. Established distribution procedure should be continued as far as feasible. Prior to takeover by Communist or coalition group utmost protection should be afforded CUSA associates. Presumably after [arrival] *de facto* authorities it will be advisable by-pass CUSA and deal directly with *de facto* representatives in cooperation with Consulate.

In event above terms not accepted or having been accepted [are] violated, you should withdraw any participation in distribution remaining stocks and inform ECA Shanghai. Preparations should then be made remove staff from area and make clear statement through all media public information available reasons for withdrawal. If

withdrawal necessary, custody all ECA equipment to Consulate General and local staff terminated.

c. Present plans call for continued shipment of all ECA commodities to principal ports to which previously earmarked if *de facto* authorities agree certain conditions. Will inform you re this.

d. Keep ECA Shanghai constantly informed status personnel, supplies and negotiations if and when Nationalists abandon area.

e. Keep close touch Davis and Smyth² (Ivy and Clubb) and if conditions permit, Davis should negotiate for both offices.

f. Do not inform *de facto* authorities re *c* above beyond giving personal view further aid may depend on performance new authorities immediate future. Paragraph *c* now being referred Washington for final clearance.

g. Hoffman's press statement in Shanghai being airmailed immediately.³

Sent ECA Peiping 347, repeated ECA Tientsin 238, Washington TOECA 621. [Lapham.]

CABOT

893.50 Recovery/12-1748 : Telegram

The Deputy ECA Administrator (Bruce) to the Chief of the ECA China Mission (Lapham)

WASHINGTON, December 17, 1948—10 p. m.

ECATO 768. Reur TOECA 621, following based on discussion with Acting Sec of State.

1. Re para *c.* Plans for continued shipment not yet made here and will depend on general decisions highest levels Washington.

2. Re para *f.* No personal views or assurances should be given to any *de facto* authorities. Any discussions re distribution should be confined strictly to supplies already on hand in China.

3. Instructions paras *a* and *b* okay.

BRUCE

893.50 Recovery/12-1848

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State

[WASHINGTON,] December 18, 1948.

Apropos of our conversation this morning in regard to the status of the China Aid Program in areas which may be occupied by the Chinese

² Robert L. Smyth, Consul General at Tientsin.

³ Not found in Department files.

Communists, I recommend that you submit this problem to the Cabinet at its next meeting with a view to obtaining a decision along the following lines:

The China Aid Program should not be continued in areas occupied by the Chinese Communists except under the circumstances set forth hereunder:

In the event of Chinese Communist occupation of a city where ECA is engaged in implementing the China Aid Program, ECA representatives should continue the distribution, under procedures similar to those now in force, of commodities already landed and commodities in the process of being unloaded from ships at that city or at the port of entry for that city. ECA should withdraw its representatives from such a city at the conclusion of the distribution of these commodities. Vessels carrying ECA commodities destined for a Chinese city which falls into Chinese Communist hands should be diverted to National Government-held areas or to some non-China destination, as directed by ECA.

893.50 Recovery/12-2748: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 27, 1948—5 p. m.

[Received December 28—7:38 a. m.]

2627. Shanghai's 2128, December 20⁴ refers to request by Kailan Mining Administration for ECA reconstruction funds despite Communist occupation of mines. Implicit in Embassy's views (reference Embtel 2414, December 4) is that denial capital goods to Communists is even more important than consumer's goods. We assume Hoffman's Washington statement⁵ regarding suspension reconstruction program covers this point.

Sent Department, repeated Shanghai 1314 for Lapham.

STUART

893.50 Recovery/12-2848

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State

[WASHINGTON,] December 28, 1948.

Subject: Discontinuance of ECA Distribution in Communist-controlled Areas of China

In accordance with my memorandum to you of December 18, 1948 on the above subject, I recommend that ECA be requested immedi-

⁴ To the Ambassador in China; not found in Department files.

⁵ On December 21.

ately to regulate its commodity shipments to Central China so as to ensure that stocks are not accumulated beyond the levels required for distribution during an estimated period of transition from Nationalist to Communist control. Access to Tientsin by sea appears to be effectively cut off by the Communists.

Definition of the stock ceiling to be maintained for particular commodities would require study in consultation with ECA since it probably should be determined, in part, by operational factors. In general, however, I should say that four weeks would seem to be a liberal maximum transition requirement. In the case of petroleum, it may be necessary to allow six weeks or more. Projections of ECA petroleum shipments should, of course, take into account the overall petroleum stock position of the private companies. The Department is currently exploring the possibility of limiting petroleum stocks with the private American companies, ECA and the British Embassy.

If you concur in this recommendation,⁶ I shall be glad to consult with appropriate ECA officials regarding its implementation with Mr. Labouisse.⁷

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/12-3048

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Acting Secretary of State*

[WASHINGTON,] December 30, 1948.

Unless I hear from you to the contrary, I will continue to proceed on the basis that the attached memorandum accurately reflects the President's wishes.⁸

Mr. Labouisse and I had a talk this afternoon with Mr. Henderson and we are meeting tomorrow morning with Mr. Cleveland.

W. W[ALTON] B[UTTERWORTH]

[Annex]

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] December 30, 1948.

MEMORANDUM FOR THE RECORD

On returning from the White House this afternoon, Mr. Lovett requested that I place on record the following decisions which the President communicated to him. Mr. Clark Clifford⁹ was also present.

⁶ Marginal notation: "OK L[ovett]."

⁷ Henry R. Labouisse, Coordinator for Foreign Aid and Assistance.

⁸ Marginal notation: "OK L[ovett]."

⁹ Clark M. Clifford, Special Counsel to President Truman.

1. That this Government would continue to support through the implementation of the China Aid Act the present Chinese Government or a legal successor Government which pursues an anti-Communist policy. However, should a government come into power which comes to terms with the Chinese Communists, all aid should cease irrespective of whether the Communists are in numerical ascendancy or not.

2. When the Chinese Communists either directly or indirectly through a coalition government take control over any area, all ECA supplies ashore or in the process of being unloaded can be distributed under conditions similar to those now prevailing. However, ECA supplies which have not yet reached such ports should be diverted elsewhere.

3. That the military supplies under the China Aid Act should be delivered insofar as possible in accordance with the advice of our military authorities in China.

V. PREPARATION OF PROGRAM FOR CONTINUATION OF AID TO CHINA AFTER EXPIRATION OF THE CHINA AID ACT OF 1948

893.50 Recovery/9-1648

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] September 16, 1948.

Subject: ECA¹⁰ Proposals Regarding Formulation of a China Aid Program for Fiscal Year 1950 and thereafter

Apropos of your discussion regarding China on Monday with Mr. Hoffman¹¹ and the Secretaries of the National Defense Establishment, which you described to me this morning, I attach for your information copies of two ECA memoranda¹² dealing with the above subject. The memoranda, prepared by Mr. Cleveland¹³ (ECA) for Messrs. Moore¹⁴ and Hoffman, were awaiting me on my return from leave. Mr. Cleveland had sent them to the Department in the hope that they might provide a basis for joint formulation of future China aid policy by ECA, National Defense and the Department. The memorandum may be summarized briefly as follows:

Consideration should be given to formulation of a new program of aid to China along the following lines: (1) Inclusion of direct

¹⁰ Economic Cooperation Administration.

¹¹ Paul G. Hoffman, ECA Administrator.

¹² Dated July 31 and September 1, neither printed.

¹³ Harlan Cleveland, Director of the ECA China Program.

¹⁴ M. T. Moore, Special Assistant to the ECA Administrator.

military as well as economic aid; (2) Coordinated administration, including close field supervision, of both types of aid by a unified mission; (3) Participation by the mission in the development and execution of Chinese Government policies; (4) Legislative designation of the aid as for "China" rather than to the National Government so that the aid administrator would have maximum flexibility to direct aid to those elements in China which give greatest promise of effective resistance against the Chinese Communist program. These proposals are based on the assumption that the National Government is not able to cope with the situation it faces, that the near future will bring increasing disintegration and chaos, and that there are and may develop leaders, such as General Fu Tso-yi in North China, who are more effective than those at Nanking, but who are denied adequate support by the National Government. The implication is present that a new aid program should be of considerably greater magnitude than the current program, and Mr. Cleveland (ECA) has stated to one of my assistants his belief that a new program should be authorized for the achievement of definite objectives over a longer period—say three years.

893.50 Recovery/9-1648

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] September 20, 1948.

Is my understanding correct that the following conclusions can be drawn from the discussion that you and I had with the Secretary on September 17: ¹⁵

That he is willing that officers of the Department participate at the working level with representatives of ECA in drawing up alternative programs of economic aid for China to be submitted for policy determination, on the understanding that by such action he would not be in any way committed to support these or any such proposals since he believes the Secretary of State should review the position towards the end of the year when the current program ¹⁶ will have been longer in operation; that it would be his understanding that such proposals as are formulated should be generally consistent with the policy considerations which governed the present China Aid Program and should be designed to cover the period from April 3, 1949 to June 30, 1950; that as regards military aid, it will be sufficient for

¹⁵ Marginal notation: "Yes L[ovett]".

¹⁶ Established under the China Aid Act of 1948, approved April 3, 1948; 62 Stat. 158.

ECA, for planning purposes, to assume that military aid to China will be forthcoming at least to the extent required to service and supply existing American equipment in the hands of the Chinese Government.

W. W[ALTON] B[UTTERWORTH]

893.50 Recovery/9-2848

Memorandum by Mr. Dallas W. Dort, Special Assistant to the Assistant Secretary of State for Economic Affairs (Thorp), to the Director of the Office of Financial and Development Policy (Knapp)

[WASHINGTON,] September 28, 1948.

I attended today a meeting with Labouisse,¹⁷ Butterworth and Harlan Cleveland (along with David Gordon, his assistant) in regard to Cleveland's desire to get policy guidance in the preparation of a further aid program for presentation at the next Congress. Cleveland stated that the Economic Cooperation Administration in line with previous requests, needed guidance from the State Department before a program could be prepared. Mr. Butterworth stated that the Secretary had indicated his views to the effect that in the light of the unsettled conditions a further program should not cover more than a year's period, that in general it should have the same objectives as the present program and that it should be based on the assumption that additional military assistance would not go beyond amounts necessary to utilize fully American equipment now in China or to be delivered under the present program. Cleveland stated that he thought the maximum economic aid which could effectively be distributed in China was in the neighborhood of \$500,000,000. It was thought that alternative programs might be prepared, one in the neighborhood of the maximum figure mentioned by Cleveland and another for a lesser amount. Further, the probable effects of these programs could be assessed under various assumptions as to developments in China over the next eighteen months.

Mr. Cleveland asked whether the State Department could help in developing these programs. Mr. Butterworth stated he saw no reason why State Department personnel at the working level should not give all possible help. Any further problems requiring policy guidance which might arise in the course of preparing these programs could be discussed after they had arisen. The possibility of setting up an informal E. C. A.-State Department policy group to review such questions was left open.

Mr. Cleveland stated he would consult with E. C. A. and other U. S. representatives in China sending back such information or sugges-

¹⁷ Henry R. Labouisse, Coordinator for Foreign Aid and Assistance.

tions as might be helpful while Mr. Gordon would with the assistance of two or three persons in E. C. A. and the guidance and help of State Department officers develop tentative programs for consideration by the Bureau of the Budget in late November or December. Mr. Butterworth made it clear that Secretary Marshall wanted to be able to examine the proposed programs in the light of operations under the present one and conditions in China, near the end of the year. He also thought that should there be a new Secretary he would want to pass judgement on such proposals.

I assume that Mr. Gordon will consult with you or some of your staff in developing the alternative programs.

893.50 Recovery/10-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 21, 1948.

[Received October 21—8:20 a. m.]

1961. At weekly press conference of Chinese Government Information Office held on October 21, Hollington Tong made following statement when asked to comment on R. D. Lapham's Washington press conference: ¹⁸ (see Embtel 1949, October 20 ¹⁹).

"Mr. Lapham's statement is a heartening augury for China.

The extension of American aid to China through the full 4-year period of the Marshall Plan,²⁰ as he suggests, would give virtual assurance of China's triumph over its present difficulties. Uncertainty concerning the renewal of American aid has been a restraining factor in Chinese public opinion. Mr. Lapham's endorsement of such a program will give a new spirit to our endeavors.

I was also delighted by Mr. Lapham's realistic recognition that American aid will benefit the US as well as China. There has been much unclarity in American public thinking on this point.

The world is beginning to realize that China's struggle with the Communists has as its stakes the whole future of the Asiatic Continent. In waging this struggle, China is fighting, not alone for itself, but for the whole Asiatic position of democracy.

Certainly the US has an intrinsic interest in the outcome of this conflict. In addition to the efforts exerted by herself, continuing American aid to China will spell the final doom of the Chinese Communists."

Sent Department 1966 [1961], repeated Shanghai 968.

STUART

¹⁸ Roger D. Lapham, Chief of the ECA China Mission; conference held on October 18.

¹⁹ Not printed.

²⁰ Made public by the Secretary of State in Commencement exercises at Harvard University on June 5, 1947; for text, see Department of State *Bulletin*, June 15, 1947, p. 1159. For documentation, see *Foreign Relations*, 1947, vol. III, pp. 197 ff., under the title "The Political and Economic Crisis in Europe and the United States Response".

S93.50 Recovery/10-1848

The Acting Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, October 25, 1948.

MY DEAR MR. SECRETARY: At a meeting on October 15, 1948, of the Public Advisory Board ²¹ created under the China Aid Act, Mr. Roger Lapham, Chief of the Economic Cooperation Administration Mission to China, presented orally and confidentially an interim report on his Mission in China in the course of which he recommended that upon the expiration of the present program, the U. S. Government extend further aid to China under a combined economic and military program of assistance along the lines of the Greek Aid Program.²² Under Secretary of the Army Draper, General Timberman ²³ and Captain Dennison ²⁴ who were present at the meeting would be in a position to give you details regarding Mr. Lapham's recommendations.

For purposes of planning, this Department would appreciate the National Military Establishment's furnishing it as soon as possible an estimate of the cost of a military aid program such as that envisaged by Mr. Lapham in his recommendation. It would also be desirable to have for planning purposes the National Military Establishment's estimate of the cost of military aid programs of the following two types: (1) A program to provide for: The replacement and maintenance of American ground, naval and air equipment presently in Chinese possession and equipment to be furnished from the \$125 million grants ²⁵ under Section 404(b) of the China Aid Act of 1948; the furnishing of ammunition for American weapons in possession of Chinese forces, and of aviation gas to enable the Government to meet its essential combat and transport needs; (2) An all-out military aid program including the services of U. S. military advisers on a scale similar to that in Greece, which would be of a type and dimension to provide the Chinese Government with the facilities for stopping the Chinese Communist advance and for stabilizing the military situation sufficiently to permit the establishment of a basis for the eventual destruction of organized Communist military strength and to make possible the assumption of Chinese Government control over all China.

It is understood that an accurate forecast of the requirements of

²¹ Established under section 107 of the Economic Cooperation Act of 1948, approved April 3, 1948: 62 Stat. 137.

²² Authorized under the Greek-Turkish Assistance Act of 1948, approved April 3, 1948: 62 Stat. 157. For documentation, see vol. iv, pp. 1 ff.

²³ Brig. Gen. Thomas S. Timberman, Chief, Operations Group, Plans and Operations Division, General Staff, U. S. Army.

²⁴ Robert L. Dennison, Naval Aide to President Truman.

²⁵ For correspondence on this subject, see pp. 73 ff.

the programs set forth in this letter would necessitate detailed planning of considerable magnitude. The rough estimates of the National Military Establishment would be sufficient to provide this Department with the information to meet its current needs.²⁶

Sincerely yours,

ROBERT A. LOVETT

893.50 Recovery/11-548 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 5, 1948—7 p. m.

1555. Subject Art III Bilateral²⁷ particularly Deptel 929 June 25²⁸ and relevant problems listed Deptel 738 May 13 [15].²⁹

1. Department, ECA and Commerce in order appraise performance to date and as basis future Aid program planning desire Emb survey, in collaboration ConGens Shanghai, Tientsin and ECA Mission, existing temporary foreign trade regulations and Exim³⁰ Board, Cent Bank procedures from viewpoint internal consistency, effectiveness and equity of applications, appraisal of consequences, and consistency with Art III and self help principle.

2. This connection, list significant modifications in regulations and administrative procedures last 6 months, outstanding problems US business in China, and progress toward settlement.

3. Comment on changes and evaluate progress made towards objectives Art III. Report on Chinese compliance re oral assurances as to deleted subparagraphs 3a, b and c Art III Deptel 927 June 25³¹ Embtel 1226 July 5.³²

4. Recommend action Chinese Government might now be asked take in further implementation Art III.

5. Request preliminary radio summary, fuller report by mail and brief monthly summaries thereafter on significant developments.³³

LOVETT

²⁶ No response from the Department of Defense found in Department files. In his memorandum of November 15 to Mr. Labouisse, Mr. Ben T. Moore of Mr. Labouisse's staff indicated his "understanding that no reply has been received by the Department and that in view of the changed situation since the letter was drafted there will probably be none." (893.50 Recovery/11-1548)

²⁷ Economic Aid Agreement signed at Nanking, July 3, 1948, Department of State Treaties and Other International Acts Series No. 1837, or 62 Stat. (pt. 3) 2945. For correspondence on the negotiation of this agreement, see pp. 506 ff.

²⁸ *Ante*, p. 574.

²⁹ *Ante*, p. 519.

³⁰ Export-Import.

³¹ *Ante*, p. 573.

³² *Ante*, p. 599.

³³ In telegram No. 1675, November 19, 7 p.m., to the Ambassador in China, the Department requested information on self-help action attributable to U. S. encouragement; policy or administrative changes recommended by the Embassy or ECA which had not been adopted; and important policy changes which disregarded or were inconsistent with the ECA program and the self-help principle (893.50 Recovery/11-1948).

893.50 Recovery/11-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 9, 1948—10 a. m.

[Received November 9—5:12 a. m.]

2141. Prior his departure for Washington, Cleveland, ECA, discussed at length with us memorandum he was preparing for Hoffman dealing with general nature and possible legislation any successor economic aid program to China. While Cleveland's final draft was not available prior his departure, we found ourselves in general agreement on his main points.³⁴

Crux in our judgment is need for maximum flexibility of administering any future aid program and consequent requirement that legislation so provide. Authority to set up special corporation³⁵ has obvious merit and we endorse. We also agree on desirability fullest coordination between any economic and military assistance. Lastly legislation should authorize continuation rural reconstruction program.³⁶ *Sine qua non*, however, is that any legislation this subject should afford authority for highly flexible and even unorthodox economic operations in support of US policy as it develops in face of unfolding events.

STUART

893.50 Recovery/11-1148 : Telegram

The Acting Secretary of State to the Ambassador in France (Caffery)

WASHINGTON, November 11, 1948—2 p. m.

GADEL³⁷ 452. For Bohlen.³⁸

1. Following is summary my comments on China situation Nov 10 press conference, most of them in reply to questions:

Re reports Chinese Prime Min³⁹ sent tel to President asking imme-

³⁴ Mr. Cleveland's early draft, dated October 25, was sent to Livingston T. Merchant, Counselor of Embassy in China, on October 29. The final version, in memorandum form for Mr. Hoffman and Howard Bruce, Deputy ECA Administrator, was dated November 8; it was summarized in an undated memorandum by Messrs. Magill and Johnson, p. 681.

³⁵ The draft of October 25 suggested consideration be given to the creation of a special corporation to conduct economic operations on a more flexible basis than would be possible for a regular agency of the U. S. Government.

³⁶ Administered by the Joint Commission on Rural Reconstruction in China, established under an exchange of notes by the United States and China on August 5; Treaties and Other International Acts Series No. 1848, or 62 Stat. (pt. 3) 3139. For correspondence on negotiations preceding the exchange of notes, see pp. 601 ff.

³⁷ American delegation to the Third Regular Session of the United Nations General Assembly, which convened at Paris on September 21.

³⁸ Charles E. Bohlen, Counselor of the Department of State and Adviser to the American delegation to this session of the General Assembly.

³⁹ Wong Wen-hao.

mediate aid⁴⁰ and query whether such tel referred to Dept, I said I did not know. Re present situation, I said I could only support Mr. Hoffman's comments Nov. 8⁴¹ regarding current operational procedures on aid.

For background use without attribution, I said: It is obvious situation deteriorating very rapidly and problem is grave. US aid, both ECA and military category, relates to aid to Chi Govt. This raises complications indicated by Hoffman and presents problem getting supplies, whether economic or military, into hands authorized persons under law. Allocation of \$125 million made to Republic of China which means Govt China which we recognize. Chi Govt has complete disposal \$125 million. Re limitation if Chi Govt should fall and query whether we could aid warlords or other independent pro-western groups, ECA should be asked re this. Re query whether President and Dept reconsidering policies on broad Chinese question, Dept has taken part in discussions NSC⁴² advisory body to President, which also includes military, and reply is "yes". Re query whether Dept can take steps for increased aid China with any cooperating agencies prior new session Congress, I am not in position deal with this even as background since it would involve conclusions many Govt agencies. NSC has long and frequently considered papers on China and military situation has been under recent review. Re allocations and shipments under \$125 million grants, I have no information re shipments but Dept has turned over \$100 [million] in accordance with Chinese procurements here. Re NSC recommendations to President, they have been made but I cannot elaborate. Re report published today President shortly after elections telegraphed Washington urging aid be speeded up and immediate action taken, White House will have to be queried re this.

Re statements US has no China policy and query re long-range plan in China, I reiterated that my only comments on China for record would be to support Hoffman's statement, which only aspect I was at liberty comment on.

2. Following is summary ECA press release Nov 8 covering Hoffman's statement:

Mr. Hoffman and other ECA officials met with Mr. Lovett today re China aid program questions. ECA continuing aid to China under terms Foreign Assistance Act 1948⁴³ and bilateral agreement Jul 3 between Chi and US Govts. Under Act and agreement decisions re allocations and use supplies financed by ECA continue be made jointly

⁴⁰ For message from Generalissimo Chiang Kai-shek, President of the Republic of China, see telegram No. TELMAR 155, November 12, 8 p. m., p. 201.

⁴¹ For summary, see section numbered 2 in this telegram.

⁴² National Security Council.

⁴³ Approved April 3, 1948; 62 Stat. 137.

by Chi Govt and ECA. Rate shipments previously planned remains same. Commodities being furnished are rice, wheat, flour, cotton, fertilizer and petroleum products. Small special feeding program previously carried on in Mukden now discontinued. Commodity shipments continue accordance program previously laid out to major cities north, central and south China.

3. Following suggested reply possible query re Tsingtao:

Our general position Tsingtao reported lengthily and accurately in press during past 2 years. In brief, at Chi Govt request staff naval experts assigned Chinese Navy training center advise and assist training Chinese personnel to man naval vessels transferred Chi Govt accordance Public Law 512 Jul 1946.⁴⁴ In addition, Adm Badger, ComNavWesPac,⁴⁵ maintains flagship and hqs Tsingtao, convenience extended him by Chi Govt which further facilitates work advisory training staff. While training staff and hqs have some housing, office and storage facilities ashore, US has no naval base facilities in usual sense. It is not "US naval base" as sometimes reported.

Re Adm Badger action in various contingencies, suggest reply no more light can be thrown on subject than is implicit in US position Tsingtao, as described above.⁴⁶

LOVETT

893.50 Recovery/11-1248

The Director of the Office of Far Eastern Affairs (Butterworth) to Mr. William T. Phillips, Special Assistant to the Coordinator of Foreign Aid and Assistance (Labouisse)

[WASHINGTON,] November 12, 1948.

Subject: Check List of Problems for 1949-50 Presentation of ERP ⁴⁷ to the Congress

I have the following comments to make on the questions raised regarding Title IV ⁴⁸ in your memorandum of October 21, 1948 ⁴⁹ on the above subject. These comments have been discussed with the other offices and divisions indicated in your memorandum.

a. "What amendments, if any, to Title IV should be made to permit ECA to deal with Chinese problems more effectively."

At a meeting on September 28, 1948 between Mr. Cleveland (ECA) and Messrs. Labouisse, Butterworth and Dort,⁵⁰ it was agreed

⁴⁴ Approved July 16, 1946; 60 Stat. 539.

⁴⁵ Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.

⁴⁶ For correspondence regarding Tsingtao, see pp. 307 ff.

⁴⁷ European Recovery Program.

⁴⁸ The China Act of 1948.

⁴⁹ Memorandum by Mr. Labouisse to "Certain Office and Division Chiefs", not printed.

⁵⁰ For an account of this meeting, see Mr. Dort's memorandum to Mr. Knapp, September 28, p. 670.

that, for planning purposes and without prejudice to future policy decisions, the Department would collaborate with ECA in the formulation of a fiscal 1950 China economic aid program, or alternative programs, consistent with policy considerations which governed presentation of the present aid program. ECA has not as yet made any specific suggestions regarding the content or legislative aspects of a new economic aid program for China.

FE ⁵¹ and ED ⁵² have been studying the situation carefully, but find that it is extremely difficult to make any definite program or legislative proposals in view of the highly fluid and disintegrating Chinese situation. It does appear, however, that if U. S. economic aid to China could and were to be continued after April 3, 1949, it should be directed with maximum flexibility. Some aspects of Title IV legislation which would have to be considered with this observation in mind are as follows:

Section 402 ⁵³—Redraft to place greater emphasis on assistance to the Chinese people as contrasted with the “Republic of China” might prove desirable.

Section 403—Present wording provides desirable flexibility.

Section 405 and 407—Should be drafted so as to make it possible for aid to be extended in the contingency that the presently recognized National Government no longer exists or, if necessary, without reference to the National Government. Any revision should, of course, avoid an implied repudiation of the present National Government so long as that Government retains administrative integrity. While present wording of these sections may not preclude such action, the two sections should be considered in relation to their respective bilateral agreements which appear to tie U. S. aid exclusively to the National Government.

[Here follows review of Far Eastern programs and their relation to policies in Japan.]

893.50 Recovery/11-1248

*The Chinese Permanent Representative to the United Nations
(Tsiang) to the Secretary of State* ⁵⁴

[PARIS,] November 12, 1948.

DEAR MR. SECRETARY: Under instructions from Dr. Wang Shih-chieh, the Minister of Foreign Affairs, I am transmitting to you an

⁵¹ Office of Far Eastern Affairs.

⁵² Division of Investment and Economic Development.

⁵³ 62 Stat. 158.

⁵⁴ Handed to the Secretary of State by Dr. Tsiang on November 13; the Secretary of State was in Paris on official mission.

aide-mémoire, setting forth certain considerations relating to the American aid program in China and our common relations with Japan.

Dr. Wang further instructed me to say that he drafted the *aide-mémoire* after his talks with you⁵⁵ and Mr. Hoffman in Paris.

With warm regards, TINGFU-F. TSIANG

[Enclosure]

Aide-Mémoire From the Chinese Minister for Foreign Affairs
(Wang)

CONSIDERATIONS ON THE CHINA SITUATION: A NEW AID PROGRAM AND AN AGREEMENT RE JAPAN

The situation in China is now critical. The factors which produced this crisis are mainly three.

First, eight years of war against Japan followed by three years of destruction wrought by the Chinese Communist Rebellion have caused incalculable material losses and unprecedented political and social dislocation.

Secondly, on the surface, China seems to have been fighting a domestic rebellion, but, as the Chinese Communists are backed by an international organization and an external Power, her fight is essentially international in nature. China has a common frontier of over six thousand kilometers with a Communist Power and has among her neighbors Burma, Indo-China, Korea and Malaya where Communist strength has all been gathering momentum.

Thirdly, though it is now three years since Japan surrendered, there has been neither a peace settlement nor any definite agreement between the United States and China with regard to Japan. This situation has given rise to apprehensions in China, has furnished fertile ground for agitations and has rendered impossible the initiation of a positive policy of collaboration between the two countries vis-à-vis Japan.

In spite of these difficulties, the Government of China and more notably President Chiang Kai-shek have preserved, as they did during the war against Japanese aggression, their unshakable faith in their ability to put down the Chinese Communist Rebellion.

The character of the Chinese people and their traditions will make it very difficult for them to accept Communism. The treatment they have received in the Communist-controlled areas is causing them actively to oppose it. After over ten years of deprivation and hard-

⁵⁵ For correspondence concerning these conversations, see pp. 192 ff., *passim*.

ship, harsh criticisms on the part of the Chinese public of their Government are not unexpected; but the large majority of the masses and intellectuals desire nothing more strongly than the strengthening of their Government in the face of the national crisis. Given an adequate program of economic rehabilitation and military reenforcement, China can be made the bulwark of freedom and peace in the Far East.

In view of the above, the Government of China wishes to place the following two suggestions for the consideration of the Government of the United States of America.

1. A NEW CHINA AID PROGRAM

In 1948, American aid to China was given for one year only, while for Europe a four-year Recovery Plan was in principle adopted. The China Aid Program totalled four hundred million dollars, a small portion of which was allotted to possible military assistance. It is manifest that, in view of the more than a million Communist combatants and very extensive fronts involved, the sum for military aid was much too small to be effective. It is equally clear that an economic aid program of such limited size and time can not be expected to achieve the much needed rehabilitation.

Because of the critical nature of the situation and in view of the long tradition of Sino-American friendship, the Chinese Government urges that, in the formulation of a future aid program, the United States Government would place China on an equal footing with Europe.

And, to enable China to meet successfully the increasing military menace of the Chinese Communists in Manchuria and North China, it is further urged that the United States Government would provide military assistance on a much larger scale than before. While military assistance and economic aid are of equal importance and urgency, military operations will necessarily call for the greater outlay of the funds both from the Chinese Government and from American aid. The Chinese Government, being fully aware of the gigantic nature of the task involved in a complete suppression of the Communist Rebellion, has been giving consideration to a three-year campaign plan.

It is, therefore, suggested that, in continuation of the 1948 Aid Act, a new China Aid Program including the following two parts be given full consideration:

(a) a three-year program of Economic Aid amounting annually to four hundred fifty million dollars. In the early stages of this program, the greater part of the aid will be furnished in the form of commodities, in order to help in maintaining China's balance of international payments and the stability of prices, while in the later stages,

emphasis will be placed on the increase of production through specific projects of development.⁵⁶

(b) a three-year program of Military Assistance amounting annually to five hundred fifty million dollars. This sum will be devoted mainly to the procurement of munitions and equipment. Assistance in technical services will be also needed.

With reference to the machinery for ensuring the efficient use of the economic aid furnished, the arrangement between the Economic Cooperation Administration and the Chinese Government should be permitted to continue in force. As regards military assistance, it is hoped that a ranking officer may be sent to China to coordinate the work similar to what the representative in China of the Economic Cooperation Administration is doing in the field of economic aid. The Chinese Government assumes that, in order to guard against possible misunderstanding on the part of the Chinese public and malicious Communist propaganda, care will be taken to avoid such stipulations as may be regarded as an infringement on China's sovereignty or administrative integrity.⁵⁷

[The remainder of the *aide-mémoire* dealt with "An Agreement on Common Policy re Japan".]

⁵⁶ Subsequently, Pei Tsu-ye, Chairman of the Chinese Technical Mission in Washington, made known to ECA the Chinese Government's further views on economic aid. He requested adjustment of the existing program by allocating an additional \$40,000,000 for cotton, cutting back procurement of other commodities and postponing reconstruction and replacement activities until next year's program; estimated at \$80,000,000 interim aid assistance for necessary commodities during the period April to June 1949; and fixed at \$470,000,000 Chinese economic assistance requirements for the first year of the projected 3-year program. These views were transmitted to Mr. Lapham in telegram No. ECATO 765, December 17, 10 p. m. In telegram No. TOECA 646, December 20, Mr. Lapham stated his opposition to any major adjustment in the existing program. He did not comment on the remaining two points raised by Mr. Pei. (Telegrams filed under Shanghai Embassy Files, Lot F 84—848 ECA.)

⁵⁷ In his memorandum of December 23 to the Acting Secretary of State, John M. Allison, Deputy Director of the Office of Far Eastern Affairs, indicated that no action was taken on the Chinese *aide-mémoire* "since the President's message of November 12 to Generalissimo Chiang Kai-shek represents, in effect, an answer to the Chinese request for increased aid and since the President forwarded to the Department for its archives the memorandum on Aid for China (Tab B) presented to him by Ambassador Koo on November 24". (893.50 Recovery/11-1248) The message of November 12 is contained in telegram No. 1608, November 12, 7 p. m., to the Ambassador in China, p. 202. Tab B, not attached; it may be the memorandum of November 25 from the Chinese Ambassador, p. 212.

893.50 Recovery/12-148

*Memorandum by Messrs. Robert N. Magill and Richard E. Johnson,
of the Division of Chinese Affairs*⁵⁸

Subject: Summary of Cleveland's Proposals Regarding New China Aid Legislation and Program (Memorandum of November 8⁵⁹ to Messrs. Hoffman and Bruce)

Cleveland lists the alternative political conditions which may exist in China during the period to be covered by the next aid to China Legislation:

1. Continuation of conditions prevailing during the last year—continuing costly warfare, further economic difficulties for the Chinese Government, but no conclusive developments in Communist-Government relations.

2. Political fragmentation, with outlying provinces assuming more or less autonomous authority.

3. Complete defeat of Nationalist forces, followed by the conclusion of some form of agreement between the Communists and the Government—presumably establishing a Communist dominated coalition.

Cleveland remarks that the first alternative seems highly unlikely, and that the most probable development would be some combination of the second and third alternatives. He argues that the present China legislation would be inadequate for the effective extension of American aid under such circumstances. In its present form, the China Aid Act does not permit direct operations by the U. S. Government, it requires that all aid be channelled through the National Government, and it provides for no real coordination between economic and military programs and no real supervision over military aid. Instead, the legislation should allow a high degree of flexibility for the executive branch to assist particular Chinese groups which offer promise of developing along lines favored by the U. S. Although acknowledging that the U. S. presumably would not furnish aid to a Communist-dominated Government, Cleveland argues that "we should avoid any irrevocable step which would make it impossible for us to use potential economic aid as a lever in obtaining unmistakably advantageous concessions from such a government." He continues that "the U. S. Government might conceivably wish to deal solely with the new government that emerges in China", but that we "might also decide to assist anti-Communist fragments".

Cleveland proposes specifically that the next China aid legislation be changed to provide for the following:

⁵⁸ Undated memorandum transmitted to Mr. Butterworth by the Chief of the Division of Chinese Affairs (Sprouse) with his memorandum of December 1, not printed.

⁵⁹ Memorandum entitled "Aid-to-China Policy—IV", not printed.

- 1) A broadening of the U. S. policy statement in the purpose clause (a) to cover the objective of preventing China from coming under the domination of any outside power; and (b) to indicate a permanent and continuing U. S. interest in China by authorizing aid for at least three years (although appropriations would be on an annual basis).
- 2) Unified administration of all types of aid to China: a joint political-economic-military mission in the field and a "joint chiefs of staff" for China in Washington.
- 3) Extension of aid at the discretion of the executive branch even in the absence of bilateral agreement with a foreign government.
- 4) Creation of a special corporation for flexible economic warfare operations with relations to ECA similar to those between the U. S. Commercial Company and Board of Economic Warfare during the war.
- 5) Use of U. S. dollars to finance imports needed by local authorities worthy of U. S. support, as currency support measures.
- 6) Acquisition of local currency by the Administrator or his corporation by direct sale or transfer of ECA supplies in China, or through special arrangement with local authorities.
- 7) Authority for public debt transactions (sale of notes to the Treasury) by the Administrator or his corporation to avoid the problem of the statute of limitations on U. S. Government appropriated funds. Funds so derived would be in addition to appropriations for commodities aid, and they should be available for guaranty of private investment as well as for direct aid.
- 8) Authority for ECA to direct or coordinate other economic programs related to China (e. g., purchase of strategic materials and Eximbank loans).
- 9) Creation of an ECA advisory group to assist the National Government or local authorities in the formulation and administration of economic and financial measures: Direct employment by ECA of technical assistance by contract with U. S. private or public firms and agencies.

893.50 Recovery/11-2048

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Secretary of State

[WASHINGTON,] November 23, 1948.

Attached is a summary (Tab A).⁶⁰ of the report of D. Worth Clark, consultant to the Senate Appropriations Committee, on aid to China (Tab B).⁶¹ which was covered by the press on Sunday, November 21. An acknowledgment of the copy which Mr. Clark sent you personally is attached for your signature (Tab C).⁶⁰

⁶⁰ Not printed.

⁶¹ Mr. Clark's report not printed; it was submitted to the Senate Appropriations Committee on November 19 and a copy sent to the Secretary of State by Mr. Clark on November 20. The Secretary acknowledged receipt of the report on November 24.

The report concludes that only through large-scale aid to and participation in the National Government's military-economic effort can the United States hope to prevent Communist domination of China. The most significant of the recommendations are for extensive direct military aid; assumption of actual administrative and combat authority by American military advisors; and financial aid to remove a major portion of the war cost from China's internal budget and thus provide currency stabilization. Although not indicated by the report, the recommendations for financial aid would involve U. S. contributions of goods, bullion, or currency to underwrite both the foreign exchange as well as the internal budgetary deficit of the Chinese Government. China's minimum foreign exchange deficit for 1948 was estimated by the Department at about \$400 million. The internal budgetary deficit has been running at the equivalent of U. S. \$600 to U. S. \$700 million a year, and this might well be increased substantially as the result of an expanded military program.

Creation of a \$200 million reserve fund for currency stabilization is proposed quite apart from aid to finance China's internal budgetary deficit. It is difficult to visualize the need for such a fund if the U. S. were to provide funds sufficient to cover China's internal and external deficits.

Aside from the currency stabilization fund, no estimates are provided of the quantitative requirements of the various types of aid proposed. However, it is not difficult to conceive of a comprehensive program of this type as involving a U. S. expenditure of approximately \$2 billion during its first year of operation.

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

LONDON, December 9, 1948—noon.

[Received 4:07 p. m.]

5174. From Dickover.⁶² 1. Discussed China situation with Dening⁶³ who stated Chinese Ambassador⁶⁴ urged Bevin⁶⁵ recently to use British influence with US to have more aid sent to China. Foreign Office opinion, however, is that no amount of aid which it would be possible to send China

⁶² Erle R. Dickover, Counselor of Embassy in the United Kingdom.
⁶³ Sir Maberly E. Dening, British Assistant Secretary of State for Foreign Affairs.

⁶⁴ Cheng Tien-hsi.
⁶⁵ Ernest Bevin, British Secretary of State for Foreign Affairs.

now would alter situation appreciably as rot in Nationalist Government too deep. Western powers now must face fact that any government emerging from present chaos in China will be entirely Communist or will be coalition which will soon be dominated by Communists. Foreign Office, however, believes foreigners can continue do business with such government. Many holes in Chinese economy (for example, shortages of rice, cotton goods and petroleum) which Communists even with Soviet help cannot fill. Therefore must rely on good will of Western powers. For this reason Communists probably will not disturb foreigners or foreign properties at least for present. Main thing at present is to keep foot in door and consequently Foreign Office will retain British diplomatic and consular officers at posts and is not urging essential British businessmen to leave.

2. Foreign Office study on above subject plus section on SEA⁶⁶ will probably be sent Washington next week for delivery Department.⁶⁷ [Dickover.]

DOUGLAS

893.50 Recovery/12-2448: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 24, 1948—11 a. m.

[Received—11:48 a. m.]

2618. ReDeptel 1555, November 5, 7 p. m., and 1847, December 17, 3 p. m.⁶⁸ Preparation requested commentary under way despite hindrances slow communications other posts and general preoccupation with immediate problems on part ECA, Embassy, and Consulates. Preliminary survey along lines originally asked Deptel 1555 has been drafted in Embassy and summary submitted herewith for preliminary guidance of Department.

(1) General introductory statement: China's situation is unique among ECA recipient nations. Her civil war for survival must qualify judgments and evaluations ECA aid.

(2) Foreign trade regulations and Export-Import Board and Central Bank procedures vis-à-vis article III.

(a) Internal consistency of the regulations. The relative consistency of the regulations at any one point in time has usually been more than off-set by administrative stubbornness and inconsistencies and constant reversals and revisions of policy.

(b) Effectiveness of the regulations. Reduction of imports according to plan has been accomplished. Stimulation of ex-

⁶⁶ Presumably Southeast Asia.

⁶⁷ British study not received until January 5, 1949.

⁶⁸ Latter not printed.

ports has generally failed. Exchange saved from import controls or other sources has not been effectively used to stabilize price[s] and encourage exports.

(c) Equity of application of the regulations. It is believed that inequities which have occurred in administration of the measures have not been deliberate. Elimination of ex post facto aspects of new regulations in accordance with article III, paragraph 1, should be effected to a greater degree than they have.

(d) Consistency of the regulations and procedures with the self-help principle. While through its import controls the Government has discriminatingly selected imports considered essential for China's economy and reconstruction, in accordance with the self-help principle, in the administration of trade and foreign exchange regulations and in the over-all attitude of the Government exports and export industries have not only been neglected but have not been encouraged to the degree thought possible.

(3) Significant modifications in regulations and administrative procedures—June 30 through November 1948. The modifications listed mostly indicate a continuing effort by the Government to devise measures which will keep astride the inflation and conserve exchange. The modifications were not related to article III, except for the effort to settle cases where commodities had arrived and were not permitted importation. The rationing measures, price and cost controls adopted were administered so inflexibly and Governmental incompetence in these and related fields was so glaring as almost to guarantee failures from the outset.

(4) Problems of American business in China. General problems have had the background of inflation, poor transport, and the destruction of war. Importers in particular have been victims of China's clear need to limit imports drastically. Beyond these factors, however, there has been incompetence, conflict and discrimination in the administration of complicated and voluminous regulations affecting all business. Other problems include lack of facilities or provision for removal of profits from China for certain purposes; the rise of cost faster than price coupled often with price control on a few goods or services; and uncertainties and inequities in taxation.

(5) Progress made toward objectives of article III. Policy has generally adhered to paragraphs 2 and 3 of article III. Compliance with the provisions of paragraph 1 has been very weak. In general, minor improvement only has been noted in the conditions under which foreign trade by private enterprises is conducted in China. The refusal of the Government to grant operating privileges to the Commercial Pacific Cable Company is a case in point.

ECA has seen these comments and is in no major disagreement with them, but may comment separately.⁶⁹

Sent Department 2618, repeated Shanghai for ECA 1310.

STUART

⁶⁹ Telegrams Nos. TOECA 838, January 18, 1949, and 882, January 25, 1949, from Mr. Lapham to Mr. Hoffman, not printed.

ports has recently failed. Exchange saved from import controls or other sources has not been effectively used to stabilize price[s] and encourage exports.

NEGOTIATIONS WITH CHINA REGARDING FINAL SETTLEMENT OF WAR ACCOUNTS

893.24/6-948

*The Director of the Office of Financial and Development Policy (Knapp) to the Chinese Minister (Tan)*²

MY DEAR DR. TAN: In reference to the Lend-Lease Agreement of June 2, 1942,³ the so-called Pipeline Agreement of June 14, 1946,⁴ the Military Aid Agreement of June 28, 1946,⁵ and other lend-lease arrangements between the United States Government and the Chinese Government, the Department of State is now prepared to propose terms for final settlement of the obligations of the Chinese Government under these agreements and arrangements:

Lend-lease aid furnished to the Chinese Government by the United States Government under the Agreement of June 2, 1942 and other arrangements, according to our latest reports, amounted to a total of \$1,626,998,525, including \$849,360,232 before September 2, 1945 and \$777,638,293 since that date.

Of this total, the United States Government considers the following as obligations subject to payment by the Chinese Government:

a. Maintenance Items	\$130,000,000
b. Inventory	40,000,000
c. Pipeline	51,750,000
d. Military Aid Agreement	25,000,000
e. West China Balance	20,000,000
f. Air Cadet Training	10,000,000
g. ITA ⁶ Training	531,000
h. Dodge Trucks	6,183,000
i. Automotive Spare Parts	3,075,000
j. Chrysler Maintenance	80,000
k. Tire Plants	61,000
l. Miscellaneous	34,000
Total	\$286,714,000

¹ For previous correspondence on this subject, see *Foreign Relations*, 1947, vol. VII, pp. 1033 ff., *passim*.

² Marginal notation: "Original handed by Mr. Knapp to Mr. Tan, June 9, 1948".

³ Signed at Washington, Department of State Executive Agreement Series No. 251, or 56 Stat. (pt. 2) 1494. For correspondence on this subject, see *Foreign Relations*, 1942, China, pp. 566 ff.

⁴ Signed at Washington, Treaties and Other International Acts Series No. 1533, or 60 Stat. (pt. 2) 1760. For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 724 ff., *passim*.

⁵ Signed at Washington, Treaties and Other International Acts Series No. 1746, or 61 Stat. (pt. 4) 3895. For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 724 ff., *passim*.

⁶ International Training Administration.

Following is a brief summary of the items listed:

Maintenance Items. \$130,000,000

These maintenance items were supplied after September 2, 1945 under an authorization by the President in a memorandum dated September 5, 1945, on terms to be decided by the Secretary of State and the Administrator of the Foreign Economic Administration. The Secretary of State and the Administrator of the Foreign Economic Administration ruled that maintenance items should be supplied under this authority subject to cash payment in full, and this policy has been adhered to consistently with respect to other countries. The figure of \$130 million is the best estimate of the United States Government of lend-lease aid in this category. This estimate admittedly may prove inaccurate in either direction when the final accounting is completed. However, we are proposing this figure as a fair estimate on the basis of the information now available in order to avoid prolonged accounting and recording operations.

Inventory. \$40,000,000

Under our principles of settlement for lend-lease items, as applied to China, the State Department has considered it appropriate that payment be made for civilian held articles in inventory on September 2, 1945, and for articles of civilian utility held by the armed forces on June 30, 1946 (excluding articles charged for as maintenance items). In the absence of inventories, these two types of holdings have been estimated at \$40 million.

Pipeline. \$51,750,000

This is an obligation of the Chinese Government under the Agreement of June 14, 1946, to be paid over thirty years at two and three eighths per cent. The exact value of the pipeline is not yet definitely known, but the figure of \$51.75 million was agreed as a basis for the first interest payment paid July 1, 1947.

Military Aid Agreement. \$25,000,000

Final reports are not yet completed on the total amount of aid furnished to China for the reoccupation of Chinese territory and the disarmament and repatriation of Japanese troops under Article II, subparagraph (a) of the Military Aid Agreement of June 28, 1946. The United States Government believes that the total amounts to more than the \$25 million ceiling set in the Agreement. However, the State Department is prepared to settle the Chinese obligation for the reoccupation, disarmament and repatriation program for this amount. Article III of the Agreement states that China will pay the appropriate price, as determined by the United States Government, upon presentation of bills.

⁷ See circular telegram of September 13, 1945, 5 p. m., *Foreign Relations*, 1945, vol. VII, p. 558.

⁸ Leo T. Crowley.

e. West China Balance..... \$ 20,000,000

The Chinese Government assumed an obligation to pay this amount as the balance remaining due pursuant to an agreement⁹ concluded with General Wedemeyer¹⁰ in November 1945 for the turn over of a quantity of supplies in West China excess to the needs of the United States Forces.

f. Air Cadet Training..... \$ 10,000,000

The United States Army continued the air cadet training program from December 1, 1945 to June 30, 1946 on the understanding that the Chinese Government would reimburse all costs incurred, as indicated in a communication from the Generalissimo¹¹ to President Truman dated November 14, 1945.¹² Costs for this period have been estimated by the Army Department and the Lend-Lease Fiscal Office of the Treasury Department at \$10 million. (The Chinese Government has paid for the program since June 30, 1946.)

g. ITA Training..... \$ 531,000

The Chinese Government accepted the obligation to pay cash for continuing training after September 2, 1945 of technicians who were in the United States, en route, or scheduled to come for training under the International Training Administration. The figure given is for the period from September 2, 1945 through October 31, 1945, after which China took over the program under direct arrangements.

h. Dodge Trucks \$ 6,183,400

A total of 1,483 Dodge trucks were turned over to the Chinese Government in Kunming in October 1945 against a promise to pay landed cost on demand. The price given is based on landed cost at Calcutta, but does not include any charge for transportation of the trucks from Calcutta to Kunming.

i. Automotive Spare Parts..... \$ 3,075,250

Dodge truck spare parts also were turned over at West China depots in September 1945 on a promise to pay landed cost, which has been calculated at the above figure. Bills have been submitted but have not been paid.

j. Chrysler Maintenance Contract..... \$ 80,000

This item covers estimated charges after September 2, 1945 for a maintenance, repairs, and training project for Dodge and other trucks in China under requisition C-1497.

⁹ For summary, see telegram No. 2116, December 7, 1945, 2 p. m., from the Chargé in China, *Foreign Relations*, 1945, vol. VII, p. 1191.

¹⁰ Lt. Gen. Albert C. Wedemeyer, then Commanding General, United States Forces, China Theater.

¹¹ President Chiang Kai-shek.

¹² For text, see telegram No. 1973, November 14, 1945, 8 a. m., from the Chargé in China, *Foreign Relations*, 1945, vol. VII, p. 629.

k. General Tire and Rubber Contract..... \$ 61,091

This item covers charges after September 2, 1945 for personal services of technicians of the General Tire and Rubber Company in supervision of tire retreading shops in West China. The contract was handled under lend-lease until September 2, 1945. It was continued after that date on a cash basis until the Chinese Government requested cancellation.

l. Miscellaneous..... \$ 33,830

This item covers steel wire, rope, and lubrication material turned over in India on a promise by the Chinese Government to pay landed cost on demand. The above amount has been billed but not paid.

The Chinese Government has paid the sum of \$1,725,000 as the first installment on the pipeline obligation. These funds are being held in a special account in the United States Treasury in accordance with the request of Mr. S. C. Wang in his letter of July 1, 1947.¹³

Payment by the Chinese Government of the obligations listed above would discharge its financial obligations in respect to all straight lend-lease aid and all other lend-lease aid furnished under the specific programs giving rise to these obligations. The United States Government would be willing to consider funding most of these obligations over a reasonable period of time.

In addition to provision for payment of the appropriate sums as listed above, the United States Government proposes to include certain other provisions in the overall lend-lease settlement agreement. These would include the following:

(1) The two Governments would mutually waive other intergovernmental claims, with certain exceptions, arising out of the war or during the war period.

(2) The Chinese Government would assume responsibility for the settlement and payment of claims of Chinese nationals against the United States Government and United States Government personnel arising out of the war or during the war period. The United States Government would be willing to agree to a reduction of the Chinese Government's lend-lease obligation by a reasonable amount in exchange for this undertaking.

(3) The United States Government would reserve the right to recapture lend-lease arms and armaments, which would be retained by the Chinese Government without payment except that lend-lease naval vessels would be returned to the United States Government in accordance with the requirements of United States law. The Chinese Government would undertake not to retransfer lend-lease arms and armaments to any third government without the consent of the United States Government.

¹³ *Foreign Relations*, 1947, vol. VII, p. 1153. Mr. Wang was then Chairman of the Chinese Supply Commission, Washington.

10(4) The two Governments would reaffirm their adherence to the principles of international trade set forth in Article VII of the Agreement of June 2, 1942.

In accordance with the proposed outline of these discussions previously handed to you it is proposed to request final settlement for the aid rendered your government under Public Law 442, 77th Congress, 56 Stat. 82,¹⁴ and implemented by the Agreement between the Governments of United States and China signed on March 21, 1942.¹⁵ In that connection the U. S. Government wishes to request, at your earliest convenience, information outlined in the attached enclosure¹⁶ in connection with the uses of the proceeds of this credit by the Government of China.

Finally, as proposed last year, it is desired that any outstanding questions arising out of the surplus bulk sale contract of August 30, 1946¹⁷ may be discussed and solutions agreed between our two governments during these negotiations.

I shall be pleased to continue these discussions, and to undertake any further explanation of any features of the proposed settlement which you may desire, at your convenience.

Sincerely yours,

J. BURKE KNAPP

893.24/6-948

*The Chinese Embassy to the Department of State*¹⁸

MEMORANDUM

With reference to the proposed negotiations for the settlement of war accounts between China and the United States, the Department of State furnished the Chinese Embassy last year with two overall statements of defense aid provided to China for the respective periods before and after September 2, 1945, as well as a suggested list of items for discussion.¹⁹ The Chinese Government has given careful consideration to these documents, and the following data, with a number

¹⁴ Approved February 7, 1942; it authorized a \$500,000,000 loan or credit to China.

¹⁵ Signed at Washington; for text, see Department of State *Bulletin*, March 28, 1942, p. 264. For correspondence on this subject, see *Foreign Relations*, 1942, China, pp. 419 ff.

¹⁶ Memorandum of April 30 by Solomon Adler, Treasury representative in China, 1944-47, not printed.

¹⁷ Signed at Shanghai; for text, see Department of State, Office of the Foreign Liquidation Commissioner, *Report to Congress on Foreign Surplus Property Disposal*, October 1946, p. 40. For correspondence on the negotiation of this agreement, see *Foreign Relations*, 1946, vol. x, pp. 1033.

¹⁸ Presented to the Department by the Chinese Minister on June 9.

¹⁹ None printed; the Department's files do not indicate the method or date of transmittal of the two statements to the Chinese. The list was handed to the Chinese Minister on April 22, 1947.

of suggestions are herewith transmitted for the consideration of the United States Government.

It is hoped that after the United States Government has studied the contents of this Memorandum, meetings between the representatives of the two Governments will be arranged with a view to discussion and settlement.

The data herein transmitted consist of the following :

- Part 1. Summary of Chinese Records on Lend-Lease Transfers.
- Part 2. Comparison of U. S. Statements and Chinese Records on Lend-Lease.
- Part 3. Summary of Chinese National Currency Advances, Settlements and Remainders.
- Part 4. Uses of the 1942 500-Million Dollar Credit.
- Part 5. End Use of the Civilian Lend-Lease "Pipeline" Credit.
- Part 6. Lend-Lease Inventory in Possession of Civilian Authorities on September 2, 1945.
- Part 7. Summary of Miscellaneous Cases.

Part 1. Summary of Chinese Records on Lend-Lease Transfers.

A summary of Chinese records of U. S. lend-lease articles transferred to China is given in Table I,²⁰ which follows:

It is to be noted that for the period before September 2, 1945, U. S. Government authorities had established routine procedures to keep Chinese representatives in U. S. A. and in India informed of the details of shipment to, and arrival in, India of all lend-lease articles intended for China. The records of such information are summarized in the first three columns of the Section A of Table I.²¹

These lend-lease articles, after their arrival in India, were not automatically transferred to the Chinese Government; their disposition remained in the hands of the representatives of the U. S. Government. From time to time, various items were selected from the lend-lease stockpile in India and shipped into China, and only then, transfers to China were effected. The Chinese records of such shipments and transfers are given in the fourth and fifth columns of Table I.²² In addition, a portion of supplies shipped to India as U. S. lend-lease to China was eventually turned over to the Chinese representatives in India and accounted for as a part of the deliveries under the Pacific

²⁰ The various tables and lists (not printed) referred to in this memorandum were not ready at the time it was presented to the Department and were transmitted to William K. Miller, of the Division of Economic-Property Policy, on June 14 by E. H. Chow, Second Secretary of the Chinese Embassy.

²¹ These columns show that through September 1, 1945, American lend-lease transfers valued at \$597,748,901.64 had been shipped from the United States; that the weight of these shipments was 1,118,605,002 pounds; and that 940,374,742 pounds had been landed in India under American control (893.24/6-1448).

²² These columns show that 74,306,899 pounds valued at \$113,405,406.48 were shipped to China from India (893.24/6-1448).

Surplus Sales to China. This group of supplies is given in the last column of Table I.²³

As for the period after September 2, 1945, no routine information concerning the shipment or arrival of lend-lease articles was given by the U. S. authorities to the Chinese Government. The only Chinese records available consist of the various field reports of transfers received at different localities and on different occasions. A compilation of these reports is given as Section B of Table I.²⁴

Part 2. Comparison of U. S. Statements and Chinese Records on Lend-Lease.

According to the U. S. statements of defense aid to China for the periods before and after September 2, 1945, the total values for the respective periods are as follows:

- | | |
|--|--------------------|
| (1) For the period March 11, 1941 through September 1, 1945 | US\$798,724,514.91 |
| (2) For the period September 2, 1945 through December 31, 1946 | US\$747,282,388.68 |

As explained in Part I, the Chinese records give the following amounts for the corresponding periods:

- | | |
|---|------------------------------|
| (1) For the period prior to September 2, 1945 | US\$113,405,406.48 |
| (2) For the period after September 2, 1945 | 105,406,310.40 ²⁵ |

In order to ascertain the major factors underlying the wide discrepancy between the records of the two Governments and to enable the Chinese Government to make further checks on its own records for verification and clarification, the Chinese Government desires to obtain from the U. S. Government the following information:

(1) More details concerning the nature of articles and services other than those given in the overall U. S. statements, especially regarding the groups labelled:

a. "Miscellaneous & Contingent Expenses Undetermined" US\$232,920,665.88 in the statement for the period prior to September 2, 1945.

b. "Miscellaneous Services & Expenses, Undetermined" US\$318,341,746.85 in the statement for the period after September 2, 1945.

(2) Dates, places and quantities of lend-lease articles transferred to China; names of Chinese receiving agencies and, if possible, transcripts of documents given by Chinese representatives acknowledging receipt.

²³ This column shows that 105,738,962 pounds were transferred to Chinese control in India. No value was set on these supplies in Table I (893.24/6-1448).

²⁴ This section shows that for the period after September 2, 1945, supplies valued at \$105,406,364.40 were received by the Chinese (893.24/6-1448).

²⁵ According to a memorandum of June 16, this figure was corrected to \$105,406,364.40 (893.24/6-1648).

(3) United States accounting status regarding those categories of supplies which were originally charged to the account of lend-lease to China but were subsequently transferred to the Chinese Government under other arrangements, such as delivery under the Pacific Surplus Sales Agreement.

Part 3. Summary of Chinese National Currency Advances, Settlements & Remainders.

During the period between July 1, 1942 and August 30, 1946, the Chinese Government had made substantial advance of funds in CN Currency ²⁶ to meet the needs of U. S. Army operations in China. For settling these advances, the two Governments held several negotiations both during and after the war. As a result of these negotiations, a portion of these advances has been repaid to China or credited to China's payment account for the purchases under the Pacific Surplus Sales Agreement. There is, however, a substantial remainder not covered by the previous settlements.

A summary of these advances, settlements and remainders for the different periods of disbursement is presented in Table II which follows: ²⁷

Part 4. Uses of the 1942 500-Million Dollar Credit.

The 1942 500-Million dollar credit was allocated to the following uses by the Chinese Government:

Redemption of U. S. Dollar Victory Bonds,	US\$100,000,000.00
Redemption of U. S. Dollar Savings Certificates	\$100,000,000.00
Purchase of gold bullion.	\$220,000,000.00
Freight, insurance & handling charges for gold purchase,	557,511.49
Purchases of textiles and cotton,	25,000,000.00
Cost of, and supplies for, printing banknotes	54,442,488.51
Total	\$500,000,000.00 ²⁸

²⁶ Chinese national currency.

²⁷ This table shows that for the period July 1942 to "after August 30, 1946", Chinese currency advances amounted to CN 273,917,637,682.26; that CN 162,950,841,776.59 had been settled by agreements in November 1944 and June 1945 and through the surplus property agreement of August 30, 1946; and that there remained to be settled CN 110,966,795,905.67 which the Chinese valued at \$280,623,786.71 (893.24/6-1448). The terms of the 1944 and 1945 agreements are contained in letters from the Secretary of the Treasury, Henry Morgenthau, Jr., to Dr. H. H. Kung, November 25, 1944, *Foreign Relations*, 1944, vol. VI, p. 948, and June 27, 1945, *ibid.*, 1945, vol. VII, p. 1108. Those of the 1946 agreement are in article 6.

²⁸ These figures are in close agreement with those furnished in a letter by the Under Secretary of State to Senator Ferguson, June 27, 1947, *Foreign Relations*, 1947, vol. VII, p. 1149.

Part 5. End Use of the Civilian Lend-Lease "Pipeline" Credit.

Under the Civilian Lend-Lease "Pipeline" Credit, China received 6,100 units of Dodge T-234 trucks together with the necessary spare parts. These trucks were specially designed for army transportation in the rugged hinterland of China through the Stilwell Road.²⁹ The total value of this item is estimated to be about 31.7 million dollars.

When the Civilian Lend-Lease "Pipeline" Credit agreement was concluded, it was clearly intended on the part of both Governments that this credit should fulfil some of the civilian requirements for the rehabilitation of China. Events in China, however, turned out later to be such that these trucks had to be used mostly for the military needs of reoccupation. The actual disposition of these trucks with their spare parts is as follows:

To the Chinese Army,	5,014 units,
To civilian use,	1,096 units.

The Chinese Government hopes that the above facts will be taken into account in the discussions regarding the Civilian Lend-Lease "Pipeline" Credit.

Part 6. Lend-Lease Inventory in Possession of Civilian Authorities on September 2, 1945.

Appended hereto is a set of lend-lease inventories in the possession of the following six Chinese civilian agencies as of September 2, 1945:

- List 1. of Ministry of Communications
- List 2. of War Production Board
- List 3. of National Resources Commission
- List 4. of Salt Administration of the Ministry of Finance
- List 5. of National Broadcasting Administration
- List 6. of China National Aviation Corporation.

Part 7. Summary of Miscellaneous Cases.

The following is a provisional list of miscellaneous cases which appear to come within the scope of future discussions for war accounts settlement:

(1) Diversion of goods of the Universal Trading Corporation by the United States Army in India.

(2) Deficit on the operation of the lend-lease Liberty ships, S. S. *Chungtung* and *Chungshan*.

(3) U. S. Treasury bill to the Chinese Government to the amount of \$3,075,250.63 for lend-lease truck parts transferred in October 1945.

²⁹ Named for Lt. Gen. Joseph W. Stilwell, Commanding General, U. S. Army Forces in China, Burma, and India, 1942-44.

(4) Interim receipts for 1,438 lend-lease trucks, as requested by the Department of State.

(5) Bill presented to the Chinese Government to the amount of \$1,896.40 ³⁰ by the American President Lines for the passage of seven Chrysler technicians to India in 1944 under lend-lease sponsorship.

(6) Air Training Program expenses, for the period December 1, 1945 through June 30, 1946; included therein are also two bills to the Chinese Government for these air trainees' passage expenses as presented by the American Mail Lines and the American President Lines, to the amount of \$45,137.50 and \$57,626.50 respectively.

It is probable that the U. S. Government, like the Chinese Government, is in possession of additional information concerning the above cases. A discussion of the above cases in the light of such additional information will be conducive to clarification and understanding as regards their factual aspects.

893.24/6-2848

The Chinese Embassy to the Department of State

MEMORANDUM

1. According to the provisions of the Agreement between the Governments of the Republic of China and United States of America on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States of America, entered into on June 14, 1946, the second installment for the repayment of principal and payment of interest will become due and payable on July 1, 1948, which will amount to approximately \$2,900,000.00.

2. On account of the adverse economic conditions now obtaining in China coupled with the increasingly unfavorable trade balance and the stringency of foreign exchange reserves, the Chinese Government desires to request for a postponement in the payment of the second installment. It, therefore, proposes to invoke Section C, Paragraph 4, of Schedule 1 of the said Agreement, which provides that the payment of a due installment may be postponed if it is determined by the two Governments that, because of extraordinary and adverse economic conditions arising during the course of payment, the payment of a due installment would not be in the interest of the two countries.

3. Besides, it is to be noted that there is a number of questions concerning the implementation of the said Agreement, which may make the proposed postponement desirable. The following questions, among others, may be mentioned:

³⁰ Corrected to \$1,996.40 in memorandum of June 16 (893.24/6-1648).

a. The circumstances leading to the conclusion of the said Agreement and its implementations are among the several problems currently under discussion between representatives of the two Governments in connection with the Lend-Lease settlement.

b. The Agreement provides that the terms of payment, including the rate of interest, may be altered by mutual agreement at the time of the final settlement contemplated by Article VI of the Agreement.

c. The delivery of goods and transmittal of accounts in dollars for the goods so far delivered have been unexpectedly delayed and are not complete as yet.

4. It will be appreciated if the United States Government would give its most sympathetic consideration to this proposal and agree to the postponement of the forthcoming installment payments until the entire matter will have been thoroughly discussed and arrangements worked out at the current negotiations between the two Governments.

WASHINGTON, June 28, 1948.

893.24/6-2848

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State acknowledges the receipt of the memorandum from the Embassy of China dated June 28, 1948, in which it is proposed that payment by the Chinese Government of the second installment of principal and interest due on July 1, 1948 under the Lend-Lease "Pipeline" Agreement of June 14, 1946 be postponed pending the outcome of overall lend-lease settlement discussions.

The Department of State is anxious to expedite the conclusion of these discussions, but in fact they are still in their initial stage, and postponement of the present installment would only serve to introduce a new complication into the negotiations. The Chinese Government has already paid one installment due under the agreement in question, and the amount involved in the second installment is only 2.8 million dollars.

The justification for the proposed aid program for China submitted to the United States Congress by the Department of State³¹ took cognizance of the obligation of the Chinese Government to make this payment at this time. Furthermore, in the discussions in Congress concerning foreign aid programs, including the program for China, specific attention was given to the possibility of relieving the dollar position of the recipient countries through a general mora-

³¹ For correspondence on this subject, see pp. 442 ff.

torium on their obligations to the United States Government; however, proposals of this character were rejected in the Congress.

In these circumstances, the Department of State does not consider that it would be justified in making an exception in this case by acceding to the Embassy's proposal for the postponement of this 2.8 million dollar installment.

WASHINGTON, July 1, 1948.

893.24/8-1948

*Memorandum by the Acting Assistant Chief of the Division of
Economic-Property Policy (Shenefield)*

[WASHINGTON,] August 19, 1948.

In April 1947 the Chinese Ambassador³² in a note to the Department³³ pursuant to instructions of the Minister for Foreign Affairs³⁴ in Nanking indicated that he was agreeable to initiating at once negotiations for the final settlement of the war accounts outstanding between the two governments. The Ambassador stated that he had been directed to enter into these negotiations with the assistance of Dr. Shao-Hwa Tan, Minister of the Embassy, Mr. Hsi Te-Mou, Representative of the Ministry of Finance and Dr. Shou-chin Wang,³⁵ Chairman of the Chinese Supply Commission. A note to the Ambassador from the Department of May 21, 1947³⁶ accepted the proposal and stated that the first meeting would be arranged informally with the Minister of the Chinese Embassy, Dr. Shao-Hwa Tan.

An early meeting was held in Ass't. Secretary Thorp's office with the Ambassador, Dr. Shao-Hwa Tan and Dr. Wang and several meetings of the American side steering committee and various working committees before General Wedemeyer was sent to China to survey conditions.³⁷ Since the U. S. Executive Secretary of the negotiations and one or two other negotiators were included in the Wedemeyer mission the negotiations were inactive. With the return of General Wedemeyer and the need to deal with and formulate various proposals for a China Aid program as a part of ERP,³⁸ negotiations were not resumed until June of this year. Meanwhile, considerable study had been given to the war accounts and a tentative

³² V. K. Wellington Koo.

³³ Dated April 29, 1947, *Foreign Relations*, 1947, vol. VII, p. 1109.

³⁴ Wang Shih-chieh.

³⁵ Dr. Wang became Counselor of the Chinese Embassy in Washington late in 1947.

³⁶ Not printed.

³⁷ For correspondence on the survey, see *Foreign Relations*, 1947, vol. II, pp. 635 ff.

³⁸ European Recovery Program.

proposal, drafted in February³⁹ and revised in June, was prepared. This proposal, dealing with lend-lease only, but assuming settlement by cancellation of the \$500,000,000 1942 loan, no liability to China under the bulk surplus sale of August 30, 1946, and mutual waiver of war claims, set a figure of \$286,000,000 as the amount of Chinese liability on account of lend-lease aid. Admittedly there is considerable scope for bargaining in the figure and that has been the attitude of our negotiators.

At the meeting of June 9 Dr. Tan presented, and later supplemented, memoranda to the effect that lend-lease aid to China was altogether not more than approximately \$200,000,000 due to diversions of material in India and to theater commanders in China, and also to the effect that local currency advances on account of the U. S. by China remained unsettled in the amount of \$280,000,000. (The latest Treasury report on aid furnished to China shows \$1,626,000,000 total aid and sec. 6 of the surplus property bulk sale of August 30, 1946, we think, settled all except minor amounts of local currency advances.)

In several informal conferences with Dr. Tan and Dr. Wang and three formal meetings since June 9, little progress towards a settlement has been made, if any. No response has been made to an informal overall approach to a simple one figure settlement and in detailed discussions of the more formal meetings the Chinese alternate between talking about a business approach, or, a political approach to a settlement, meanwhile, asking impossible documentation to a degree not furnished other countries with whom settlements have been concluded. More serious, even, they emphasize the need for us to explain things for the benefit of the Government in Nanking and emphasize that they have not yet received instructions from Nanking and that they wish merely to serve as a channel of information for Nanking and, in fact, give the impression generally that they wish to chiefly delay a settlement.

Meanwhile, the Office of the Foreign Liquidation Commissioner has been authorized to discuss with the Board of Supplies of the Executive Yuan in Nanking the improvement of the Chinese operations and the extension of the take-over of surpluses by the Chinese. Captain Luboshez, FLC commissioner in Nanking, reports that extreme division exists in the Chinese Government on these matters, deriving apparently from a diversity of motives ranging from desire to increase a claim for under-run⁴⁰ to desire to maximize goods taken over and thus increase foreign exchange receipts from resale. Am-

³⁹ Memorandum of February 2, not printed.

⁴⁰ For correspondence on this and other aspects of surplus property problems, see pp. 704 ff.

bassador Stuart, it is represented by Captain Luboshez, is inclined to take the whole matter including the under-run claim to the Generalissimo and the Foreign Minister believing that a direct approach and a plan for good relations between our two countries would secure a satisfactory settlement of the surplus questions.

The main question that arises out of these negotiations is: Should not the Department ask the Ambassador, or request Ambassador Stuart to express to appropriate Chinese Government officials the Department's request for giving its negotiators proper authority to make a prompt settlement.

If, because of division in their Government, or because it may seem more expeditious to our representative to do so, (and if they seem really ready to make a prompt and reasonable settlement), might it not be desirable to authorize transferring the negotiations to Nanking and joining more closely to the main negotiations those on surplus take-over and under-run.

893.24/8-2048

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Department's Memorandum dated July 1, 1948, regarding the payment by the Chinese Government of the second installment of principal and interest due on July 1, 1948, under the Lend-Lease "Pipeline" agreement of June 14, 1946 in the amount of \$2,824,930.75.

It is understood that the Treasury Department has not yet received this payment, and the Secretary of State will be appreciative of the cooperation of His Excellency in this matter.

WASHINGTON, August 20, 1948.

893.51/9-1748

Memorandum of Conversation, by the Acting Assistant Chief of the Division of Economic-Property Policy (Shenefield)

[WASHINGTON,] September 17, 1948.

Dr. Tan, Minister of the Chinese Embassy and in charge of war accounts settlement negotiations on the Chinese side, called at the office today to discuss progress and prospects of these negotiations. The appointment was a result of Dr. Tan's suggestion at the end of our last meeting that we should discuss the negotiations, particularly the

difficult items, i. e. maintenance—\$130 million; inventories—\$40 million; and West China sale—\$20 million.

I emphasized to Dr. Tan that we were still expecting to secure a statement of uses of the \$500 million loan, and inquired as to the prospects on the Chinese side for a conclusion of the negotiations.

Dr. Tan responded that there had yet been no adequate authority conveyed to the Chinese Ambassador to conclude a settlement. He added that the Ambassador was expecting to receive some more definite instruction in this regard, that the Ambassador wished to make a prompt settlement, and that he (Dr. Tan) would discuss the matter with the Ambassador again, emphasizing his own view that this should be most strongly recommended to the Chinese Government again. He stated he expected some instruction along this line next week and would call me as soon as word was received, but in any case would probably be discussing the matter further with the Ambassador and would call me early in the week.

In answer to Dr. Tan's questions on the difficult items, I told him that I was prepared to recommend a settlement for the maintenance items on a nominal basis and indicated that something like \$15 million would be a minimum figure. (This item does not need to be charged for under general lend-lease policy on maintenance charges, and, specifically as to China, as a result of the memorandum from Assistant Secretary Clayton to Under Secretary Acheson ⁴¹ recommending that no charge be made, which was approved by Under Secretary Acheson.)

As to the inventory, I indicated that in the absence of adequate records on either side, while the charge was well within the range of charges of other countries in lend-lease settlement, i. e. 4%, there was some room for compromise here, and I indicated \$25 million as a minimum figure.

As to the West China sale, I simply stated that while we would go further in discussing and exploring this matter in negotiations, our view was that this was a definite agreement which should be kept.

With regard to the surplus property negotiation now going on in Shanghai and Nanking, Dr. Tan indicated that the Chinese disposition on this was to await a settlement of it in the current negotiations and he seemed to think there might be some possibility of securing a cash dollar payment for the disparity. As to this, I conceded no disparity, and emphasized that I could not envisage any such possible cash dollar payment on any grounds whatsoever.

Dr. Tan again expressed his desire, and that of the Ambassador, to reach an early settlement of the war accounts.

⁴¹ Dated April 24, 1946, *Foreign Relations*, 1946, vol. x, p. 737.

893.24/10-1248

*Memorandum of Conversation, by the Acting Assistant Chief of the
Division of Economic-Property Policy (Shenefield)*

[WASHINGTON,] October 12, 1948.

Both Ambassador Koo and Dr. Tan had told me a week ago that they would have conferences with Dr. Wang,⁴² the Finance Minister, concerning the war accounts settlement as soon as the Bank and Fund meeting⁴³ had concluded. They further stated that they felt that he would agree with their proposed recommendation to conclude a settlement soon.

Dr. Tan stated today that the Ambassador and he had discussed the war accounts settlement negotiations and that the Finance Minister was in general agreement with them that there should be an early settlement. He said that the Finance Minister's approach was that China did not want to be alone with Russia among the large nations who had not made settlements. He stated that the Finance Minister, who was to arrive in Nanking October 8 (Friday), thought he should have agreement in Nanking to the settlement giving the Ambassador full power to negotiate in a matter of ten days after which he would communicate with the Foreign Minister who is now in Paris. Dr. Tan stated that he thought we should surely be able to conclude a settlement within the present month.

Dr. Tan then mentioned several items in which he hoped for some consideration of a reduction, namely: (1) The West China Sale which he stated was hastily concluded and included considerable military property which might have been furnished under straight lend-lease and which might involve duplications with amounts charged for in the inventory, or otherwise; (2) Charges for automotive spare parts; (3) Dodge trucks; (4) Inventory. With respect to these latter three, he suggested that they were largely for military purposes and there might be duplication. I asked Dr. Tan whether any of these items were particularly troublesome for them in dealing with their government. He mentioned that the West China Sale had been subject to considerable criticism. I stated that we would be prepared to consider any reasonable proposal on these items but that the item on Inventory would be more difficult to deal with than the West China Sale since the treatment of Inventory was quite important in the settlement negotiations with the USSR which are still in progress.

I did not bring up the question of information on the uses of the

⁴² Wang Yun-wu.

⁴³ The annual meeting of the Boards of Governors of the International Bank for Reconstruction and Development and of the International Monetary Fund, September 25 to October 1.

\$500 million loan which we had requested from the Chinese and have not yet received, nor did I mention anything about the treatment of the disparity claims which the Chinese have made in the Nanking negotiations with the Ambassador and Capt. Luboshez of FLC. I told him I was glad to hear of the Finance Minister's conclusion and that while these details remain to be settled our figures (which now show a settlement amount of around \$140 million) were in the range of a final settlement to which Dr. Tan offered no disagreement.

Dr. Tan stated that the payment of the July 1, 1948 installment on the 3c agreement ⁴⁴ would be made shortly and I have been informed since by the Treasury Lend-Lease Fiscal Office that it was received October 8, 1948.

(A reasonable position which I believe would easily meet Dr. Tan's ideas for a further reduction in the settlement amount might be to lump the West China Sale—\$20 million, the automotive spare parts item—\$3 million, and the Dodge trucks—\$6 million, together with other small items, reducing the total of \$29 million to \$15 million, and to eliminate the nominal charge for maintenance of \$15 million. In addition, and contingent upon such a reduction, the surplus disparity claim should be offset in the amount of something like \$25 million, thus giving a settlement figure of \$88 million.)

893.24/10-1848

The Chinese Ambassador (Koo) to the Acting Secretary of State

The Chinese Ambassador presents his compliments to the Acting Secretary of State and, referring to previous correspondence regarding the payment by the Chinese Government of the second installment of principal and interest due on July 1, 1948, under the Lend-Lease "Pipeline" Agreement of June 14, 1946, has the honor to inform him that a sum of \$2,824,930.75 had been paid to the Federal Reserve Bank for the account of the United States Treasury on October 6, 1948.

The Chinese Embassy is informed by the Universal Trading Corporation, an agency of the Chinese Government in charge of the operation of the 3C "Pipeline" Agreement, that the amount due for payment on July 1, 1948, as the second installment on principal and interest of the said Agreement was less than \$2,824,930.75, and that the Corporation has communicated to the Commissioner of Accounts, Fiscal Service, Treasury Department, about this matter.

⁴⁴ The "Pipeline" Agreement of June 14, 1946. By the expression "3c" was meant an agreement negotiated pursuant to section 3 (c) of the Act to Promote the Defense of the United States, approved March 11, 1941; 55 Stat. 31.

The Ambassador will appreciate it if the Secretary would be good enough to communicate the above information to the appropriate authorities.⁴⁵

WASHINGTON, October 18, 1948.

Editorial Note

There were further inconclusive exchanges during 1949.

⁴⁵ The Acting Secretary of State acknowledged this note on November 17.

PROBLEMS ARISING FROM THE IMPLEMENTATION OF THE SURPLUS PROPERTY AGREEMENT OF AUGUST 30, 1946 ¹

893.24 FLC/5-1048

*Memorandum by Major General Philip E. Brown² to the Assistant
Secretary of State for Economic Affairs (Thorp)*

[WASHINGTON,] 10 May 1948.

Subject: Status of Operations under Surplus Property Bulk Sale
Agreement with China

A. General

An agreement between the United States and China for the sale of certain surplus war property in the China-Pacific Ocean area was signed on August 30, 1946.³ A primary purpose of that agreement was to bring about the speedy turnover to China of war surpluses for use by China in rehabilitating its economy, combating inflation, and acquiring foreign exchange through sales for export. On the part of the United States additional objectives of the agreement were to relieve the United States as promptly as possible of the expenses of care and custody of the surpluses, most of which were scattered among numerous islands, to avoid continued losses due to deterioration and pilferage, and to facilitate the reduction and demobilization of service personnel in the area. During the negotiations leading up to the signing of the agreement, it was recognized by representatives of both governments that time was of the essence and that if the project were to attain its objectives the transfer of the property to the Chinese and its removal by them from the islands should be completed as quickly as possible. Our representatives took steps which were intended to insure the efficient and expedient completion of the movement of the surpluses. Among other things, the agreement established certain time limits within which the Chinese were to take over custody and remove the property. Moreover, in order to facilitate the outloading, shipment, and reconditioning for sale, it was

¹ Continued from *Foreign Relations*, 1947, vol. VII, pp. 1242-1262.

² Deputy Foreign Liquidation Commissioner, Office of the Foreign Liquidation Commissioner (OFLC).

³ At Shanghai, Department of State, Office of the Foreign Liquidation Commissioner, *Report to Congress on Foreign Surplus Property Disposal*, October 1946, p. 40. For correspondence on negotiation of this agreement, see *Foreign Relations*, 1946, vol. X, pp. 1033 ff.

agreed that the United States should establish a fund of \$30,000,000 (US) for the charter of U. S. vessels, the payment of engineering services, and the purchase of spare parts. An appropriate provision to this end is incorporated in the agreement. The Chinese undertook to employ an established U. S. engineering firm or firms to assist in the overall operation and agreed to utilize to the greatest possible extent established commercial distribution channels for the disposal of the property.

At the time the agreement was being negotiated, it was estimated by the Army and the Navy that there would be available for sale to China movable property representing an estimated aggregate procurement cost of approximately \$500,000,000 and fixed installations with an estimated aggregate procurement cost of \$84,000,000, of which over one half of the combined total had already been declared surplus at the time of the signing of the agreement. At the present time, of this total estimate of \$584,000,000, we have made available to the Chinese property having a procurement cost of approximately \$444,000,000 of which approximately \$395,000,000 worth has been taken into Chinese custody or ownership. On the basis of estimates obtained from the owning agencies, it now appears that the total surpluses which can be made available for transfer to the Chinese will fall short of this original estimate by about \$100,000,000 worth of movable property. The full value of fixed installations has already been declared and transferred to the Chinese.

B. Acceptance and Removal Problems

We recently sent our Area Director, Mr. F. T. Murphy, on an inspection trip to several of the islands and Shanghai. As a result of his reports and observations, which are concurred in by our senior representative in Shanghai,⁴ we are convinced of the necessity for a meeting as soon as possible with appropriate Chinese Government officials for the purpose of bringing about more orderly and efficient management of the operation by the Chinese. Moreover, there are several matters which at this time require adjustment by mutual agreement of the parties to the contract.

It is abundantly clear that at their present rate of operation the Chinese will not fulfill their obligations under the agreement; i. e., they will not complete the removal of the surpluses from the several islands. In December 1947 a major slowdown and disruption of the Chinese removal operation began to develop. Through Bosey⁵ and

⁴ Capt. S. N. Ferris Luboshez, Central Field Commissioner, China, Japan, and Northern Pacific.

⁵ Board of Supplies of the Chinese Executive Yuan, charged with taking possession of and distributing surplus property.

its representatives, China indicated both informally and formally, in writing, that it did not desire to nor plan on accepting substantial portions of the surpluses which were being made available. Evidently the Chinese Government itself was concerned over the current rate of progress because in November 1947 it undertook a drastic change in the disposal arrangement. Part of the change was a sale by Bosey of virtually all the surpluses on the islands to the Central Bank of China. Apparently, it was hoped that the Bank would be able to provide more businesslike management of the sales effort, to the end that large quantities of the surpluses would be sold for export from the area. This has been an abortive effort on the part of the Chinese and the surpluses are not being moved. We believe one of the reasons for this failure is the insistence by the Chinese on obtaining what are, in the light of our own experience and that of WAA,⁶ considered to be excessively high prices for the property.

There is one exception to the general failure of the Chinese to remove property from the islands. That is their satisfactory operation on Okinawa, where we have turned over to the Chinese approximately 660,000 M/T,⁷ of which they have removed approximately 535,000 M/T. At the other two locations of very large quantities of property, i. e., Manus and the Guam-Marianas area, removal operations have been and are virtually at a standstill. They have removed only about 28% of the property made available to them. Only negligible quantities have been removed since December 12, 1947.

Most of the surpluses now owned by the Chinese occupy storage space needed by the Army and Navy or landowners or rest in buildings which have been sold separately to other customers. As time goes on, the failure of the Chinese to remove such property will undoubtedly be the basis for claims and controversies between the United States and other governments and customers.

Our agreement provides that in the event of Chinese failure to remove the surpluses within specified periods, the United States is authorized to remove, destroy or otherwise dispose of the property for China's account. Clearly, if China fails to remove the property, a large disposal and removal operation will fall upon both the Department as the disposal agency and upon the Army and Navy as custodians. Manifestly, if the disposal and clean-up work is going to become the task of a U. S. agency, action should be taken promptly while the property still has some value and there is a possibility of marketing it. The effects of deterioration, pilferage and diminishing markets make it increasingly difficult to sell the property at a future date.

⁶ War Assets Administration.

⁷ Measurement tons.

C. *The Possibility of an Underrun*

Anticipating a substantial disparity between the quantity of property originally contemplated under the agreement and the total quantity of property finally turned over to China, our Central Field Commissioner at Shanghai has suggested, and we concur, that one of the conditions which the Chinese Government should be requested to accept in connection with the China Aid Program⁸ might be complete waiver by the Chinese Government of any rights under Article 5 of the agreement, which provides for renegotiation in the event of substantial disparities in deliveries. In its dispatch [*telegram*] No. 742 dated 23 April⁹ AmEmbassy Nanking expressed its wholehearted support of the foregoing suggestion as an item for inclusion in the contemplated bilateral agreement. Our memorandum of March 25, 1948, subject "NAC¹⁰ Document 643—Settlement of 1942 Aid to China" to Mr. Ness, OFD,¹¹ suggests that NAC give consideration to including in its action a provision that China and the United States mutually waive their rights under Article 5 of the Bulk Sale Agreement.

D. *Conclusions.*

There is need for a meeting with appropriate representatives of the Government of China to resolve problems and establish mutually acceptable interpretations and understandings under the agreement with a view to bringing about speedy removal of the property from the islands. Among other things, the following matters should be dealt with at such a meeting:

1. Termination date for declarations of surpluses covered by the agreement.

2. Measures to be taken by the Chinese to speed up the removal of surpluses.

3. Extension of time for removal of property.

4. Policy with respect to refusals by China to accept property or to cause its withdrawal once it has been accepted.

5. Adjustment of disparities which have arisen to date and which can appropriately be resolved at this time.

E. *Recommendation*

That the American Ambassador at Nanking¹² be instructed to arrange a meeting between U. S. representatives and appropriate

⁸ For correspondence on this subject, see pp. 442 ff.

⁹ Not printed.

¹⁰ National Advisory Council.

¹¹ Memorandum by Maj. Gen. Donald H. Connolly, Foreign Liquidation Commissioner to Norman T. Ness, Director of the Office of Financial and Development Policy, and document No. 643 not printed. For correspondence on the \$500,000,000 credit to China in 1942, see *Foreign Relations*, 1942, China, pp. 419 ff.

¹² J. Leighton Stuart.

representatives of the Chinese Government to resolve matters relating to the surplus property bulk sale agreement.

F. Departmental Action

We realize that other economic or political factors involved in this Government's overall relations with China may render it inadvisable to meet with the Chinese Government on this matter just at this time. Accordingly, it is requested that we be advised of your views as to the desirability of the proposed meeting and, if you concur therein, as to the appropriate time for it to be held. If an appropriate time for the meeting should be indicated, we will, in coordination with other interested divisions of the Department, prepare the necessary instructions to be sent by the Department to the Ambassador at Nanking and to be sent by this office to our Central Field Commissioner at Shanghai.

893.50 Recovery/4-2348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 21, 1948—5 p. m.

768. Chinese obligations U. S. to be negotiated in war settlements ¹³ including 1942 loan provide more than adequate offset to any claims Chinese might make arising surplus property agreement (Embtel 742, April 23 ¹⁴). Dept believes more appropriate handle matter connection war settlements than through or concurrently with bilateral agreement, ¹⁵ since latter would be exception general treatment aid agreements and might be subject criticism as confusing possible claim arising past transactions with present grants authorized Congress. Department believes waiver claims for recovery under Article 5 surprop agreement unlikely to be accepted by Chinese in view China aid bill legislative history. Dept considering advisability Embassy and Luboshez discussing Chinese takeover improvement and underrun discussion with appropriate high level officials. Dept would like Embassy's comment these views and suggestions on specific points for discussion soonest.

Sent Nanking as 768. Repeated Shanghai as 952. Pass to Luboshez.

MARSHALL

¹³ For correspondence on this subject, see pp. 686 ff.

¹⁴ Not printed.

¹⁵ For correspondence on negotiation of this agreement, see pp. 506 ff.

893.50 Recovery/6-448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 4, 1948—2 p. m.

[Received June 4—1:39 p. m.]

1002. We have discussed with Luboshez Deptel 768, May 21, regarding Surplus Property agreement. Question is posed at time when apparently there is flux and uncertainty in policy of Army and Navy regarding surplus property. We understand that as a result of augmented requirements Army has issued directive to conserve property and suspend surplus property declarations pending determination of definite requirements. Navy policy not yet ascertained.

Nevertheless, we feel that this is appropriate time to open discussions at high level in Foreign Office on plans of Chinese for completion of property removal. If, during discussions, Chinese raise question of so-called under-run, we believe that by use of moral persuasion at high level and without tying discussions in with other problems, we can persuade Chinese to drop issue. General Kiang of Bosey has been documenting a case to support charge of material disparity between the property sold to China and the consideration given therefor by China. Luboshez states that, even though Kiang has instances which are bad, the general picture is more favorable than the Chinese present. There are too many uncertainties involved, he says, for any precise factual determination to be possible without prolonged and acrimonious arguments and inquiry which we all agree would be highly undesirable.

We recommend, and Luboshez concurs, that we be authorized to initiate at Foreign Office discussion on improvement in removal operations. Sent Department 1002; repeated Shanghai 445.

STUART

893.50 Recovery/6-448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 14, 1948—6 p. m.

877. Reurtel 1002, June 4. Department concurs desirability opening discussions at high level Chinese Foreign Office purpose accomplishing improvement removal operations. Of course, question so-called "underrun" should not be raised by United States representatives. You authorized, in collaboration Luboshez, undertake discussions soonest.

Sent Nanking as 877, repeated to Shanghai as 1072.

MARSHALL

893.50 Recovery/7-648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 6, 1948—4 p. m.

[Received July 6—2:02 p. m.]

1232. In compliance with Deptel 877, June 14, accompanied by Luboshez, and other OFLC personnel, we discussed at Foreign Office on June 29 improvement removal operations. After apparently satisfactory discussion that subject, Bosey representative, supported by Vice Minister Liu, raised question termination period within which surplus declarations could be made, maintaining June 30, 1948, definite deadline. Efforts Luboshez and OFLC personnel to maintain that June 30 was target only and not definite termination date were unsuccessful. We suggested that in view of unresolved difference in interpretation of agreement, Foreign Office might wish to place its interpretation on record in note to Embassy, adding that if Washington desired maintain position that June 30 was target date, it would have opportunity to do so with justification.

We have today received "very urgent" note from Foreign Office dated June 30, translation of which was delayed because July 4th intervened, in which Foreign Office refers to surplus property agreement and states:

"In article 3 of the agreement it provides 'all of such property shall be removed within a period of 22 months from the date hereof, or a period of 6 months after China acquires right to possession of the property.' According to an understanding reached by the two High Contracting Parties at the time of concluding the agreement, the Chinese Government assumes that the date June 30, 1948, i. e., the end of the period of 22 months after the signing of the agreement, shall be the final date for the United States authorities to declare and transfer the surplus property to China.

At the time when China and the US were holding discussions toward concluding the agreement, it was originally proposed by Mr. McCabe,¹⁶ the American representative, that within 18 months after the signing of the agreement, a total of 2 million shipping tons of surplus property be declared and transferred to China. As a result of a subsequent discussion, the two High Contracting Parties agreed to change this so that (the surplus property) be declared and the transfer be completed within a period of 22 months. Mr. Peterson, Assistant Secretary of the US Department of War, verbally promised that 8 percent of the surplus material of the US Army would be declared and transferred to China before the end of 1946. Subsequently, with a view to safeguarding China's interests, the words 'or (shall be removed within) a period of 6 months after China acquires right to the possession of the property' were added to article 3 of the

¹⁶ Thomas B. McCabe, Foreign Liquidation Commissioner and Special Assistant to the Secretary of State, October 1945 to September 1946.

agreement. Therefore, the time limit of 22 months as provided in the agreement apparently means that all the surplus property should be made known and the transfer completed before the expiration of the 22-month period.

The movable property already declared surplus by the US and turned over to the possession of the Chinese Government now still falls far short of the total amount of US 500 million dollars originally provided for in the agreement. According to reports received from officers sent by the Chinese Government to the various islands in the Pacific, surplus property now held in stock by the US is limited, and the complete delivery of the prescribed amount before June 30, 1948, can hardly be expected. While arrangements will be made for action to be taken separately in connection with that portion of the surplus property which comprises fixed installations, it would appear that negotiations should be conducted between the Chinese and the US authorities at an early date, in accordance with the provisions of article 5 of the agreement, with a view to making appropriate adjustments with regard to the discrepancy in that portion of the surplus property which comprises movable property."

The note concludes with a request that a representative be designated to discuss the matter with Foreign Office.

We have been informed by Luboshez that differences in accounting procedures and other elements throw doubt on Chinese contention that there is real "underrun" of appreciable size. There is a possibility that by taking matter to highest Chinese source and using moral suasion on basis of broad principles, we may be able to persuade Chinese to withdraw request for detailed discussions involving attempt actually to balance books. Also it is possible Department may wish raise this general question in connection discussion in Washington [of] settlement lend-lease and other problems.

We shall take no action pending further instructions.

Repeated Shanghai for Luboshez as 581.

STUART

893.24/7-848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 8, 1948—3 p. m.

[Received July 8—5:06 a. m.]

1528. For Ramsey¹⁷ and Murphy. Luboshez sends. Officially informed by Kiang that he considers June 30 cut-off date for declarations. He enclosed copy his memorandum to Foreign Office stating his interpretation of contract and belief that property on future declaration would be worthless. He also asked Foreign Office to

¹⁷ Fred W. Ramsey, Foreign Liquidation Commissioner since April 1.

arrange for discussions on disparity. Kiang ordered his field representatives to refuse to accept notices of availability and Guam reports Bosey returned notices served July 3 totalling 2 million procurement costs. Ambassador and I had conversations at Shanghai July 7 at which it was decided :

1. In order to permit speed-up of removal operations to press for firm highest level Chinese policy decision as to priorities for disposition of property acquired under contract as between (a) sales for foreign exchange and (b) shipments to China. Such decision must take into account that Chinese attempts to sell property for foreign exchange have not been successful and have seriously delayed removal operations for over 6 months past.

2. To ascertain whether Bosey's refusal to accept property after June 30 was dictated by (a) genuine fear that future property would be worthless or (b) desire for maximum under-run in order to obtain dollar exchange in settlement.

If 2 (b) governs, it was decided that China should be informed that in no event would a cash settlement be made so that they should consider advisability of taking all property to be made available up to a date to be mutually agreed upon. Matter was thought of sufficient importance to warrant Ambassador taking questions personally to President¹⁸ or Prime Minister¹⁹ at once and he will urge speedy reply in view of my prospective departure Washington. Will discuss with Minister Clark²⁰ [the] Foreign Office reply which arrived subsequent to conversation with Ambassador.

Sent Department 1528, repeated Nanking 1239. Department please pass OFLC Washington as OFLC Shanghai's 2966. [Luboshez.]

CABOT

893.50 Recovery/7-948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 9, 1948—7 p. m.

1012. From Ramsey, OFLC Re Embtel 1232 of July 6 and SFCLC secret 2948.²¹ This message has the concurrence of all interested offices of the Dept. It is Dept view that contract provides no terminal date; contract ends only upon termination of declarations by owning agencies. It is however clearly in interests of all parties concerned that mutual agreement now be reached on date for completion of declarations. Owning agencies have informally suggested date be-

¹⁸ Generalissimo Chiang Kai-shek.

¹⁹ Wong Wen-hao.

²⁰ Lewis Clark, Minister-Counselor of Embassy in China.

²¹ SFCLC 2948 not found in Department files; it originated in the Shanghai office of OFLC.

tween Sept 30 and Dec 31. Dept conferring with owning agencies to establish earliest possible date; will advise.

With regard to dates referred to in paragraph *a*, article 3, of agreement, Charles Kendall, formerly General Counsel,²² in recollection of negotiations prior to signing of the agreement, supports our position as set forth above and our further position that such dates concern only the limitations of time imposed upon China for the removal of property, subsequent to its having been declared and made available, and have no reference to time limits to be met by owning agencies in making declarations or by FLC in serving notices of availability.

Appreciate your difficulties in view of positive action taken by Bosey as indicated by GFLC 6034²³ and 6037²⁴ and by FO letter cited in Embtel 1232. However, we cannot accept unilateral action of China in setting 30 June as termination date. Your reply to FO should set forth clearly above principles and during any subsequent negotiations on this issue you must continue to be governed by earliest date reported acceptable to owning agencies.

Dept suggests that no representative be now appointed for negotiation with FO on possible underrun. Consideration being given to treatment of Chinese claim for underpayment on yuan debt and alleged surplus underrun in relation to overall lend-lease and war account settlement. Will advise later regarding preferred method and place of negotiation such matters.

Above referenced Guam cables will be subject to separate dispatch soonest.

This message has been repeated to Shanghai 1244 for Luboshez OFLC and to OFLC Guam for info. [Ramsey.]

MARSHALL

893.24 FLC/7-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 20, 1948—5 p. m.

[Received July 20—8: 11 a. m.]

1316. We discussed with Vice Foreign Minister Liu Contel 1293, July 16²⁵ reference Surplus Property Agreement and found him

²² Of OFLC.

²³ Not found in Department files; it originated in the Guam office of OFLC.

²⁴ Dated July 6, not printed; it reported the Bosey Office in Guam had returned notices of availability to the OFLC Guam Office (893.24 FLC/7-648).

²⁵ Shanghai Consulate General telegram to the Embassy in China, not printed; it reported the Supply Commission of the Chinese Executive Yuan was agreeable to Chinese acceptance of surplus property declarations after June 30 and to the fixing of a date for termination of such declarations (Nanking Embassy Files, Lot F 79—824 Surplus Property).

agreeable in principle to our interpretation. He stated in confidence that Chinese would likely propose September 30 as termination date.

Sent Department; repeated Shanghai (For OFLC) 634.

STUART

893.24 FLC/7-2848: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 3, 1948—3 p. m.

1111. From Hyssong²⁶ OFLC. Your 1375 dated July 28²⁷ Department believes that negotiations regarding termination date China Bulk Sale agreement should be maintained at high diplomatic level. In view fact conferences still active here between OFLC and services, request no commitments be made prior Luboshez's return Shanghai. [Hyssong.]

MARSHALL

893.24 FLC/5-1048

Memorandum by Mr. Paul H. Nitze, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), to the Foreign Liquidation Commissioner (Hyssong)

[WASHINGTON,] August 5, 1948.

Reference is made to a memorandum of May 10, 1948 from Major General Brown. It is requested that appropriate instructions be prepared for the Ambassador at Nanking and OFLC's Central Field Commissioner at Shanghai. It is believed that the instructions should include the following points:

1. Negotiations should be held as soon as possible.
2. The question of "underrun" should not be raised by representatives of the United States. However, if the Chinese should raise the question, the views of the Chinese should be received without any indication that compensation will be made in dollars. The Chinese should be informed that claims for underrun should be postponed until the removal has been completed. We shall be in a better position to determine whether there has been an underrun, after the Chinese have completed performance of the agreement. Moreover, as pointed out in the memorandum of May 10, there is a possibility that the Chinese may incur obligations, particularly claims under Article 2c, unless they promptly complete removal.

²⁶ Maj. Gen. Clyde L. Hyssong, Foreign Liquidation Commissioner since July 31.

²⁷ Not printed; it reported an informal Chinese Foreign Office view that October 31 might be acceptable as the date to terminate declarations (893.24-FLC/7-2848).

In any event, claims for underrun should be considered with the lend-lease settlement.

3. The instructions should also include all other appropriate directions for winding up matters under the agreement.

893.24 FLC/8-1748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 17, 1948—11 a. m.

[Received August 17—3 : 38 a. m.]

1523. In response to numerous inquiries we have in each case told Foreign Office that question of termination date for declaration under Surplus Property Agreement was under consideration in Washington, Deptel 1111, August 3. We have now received formal note from Foreign Office stating matter is urgent and requesting immediate designation US delegate to discuss problem. Has Department information when Luboshez will return to Shanghai?

STUART

893.24 FLC/8-1748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 24, 1948—7 p. m.

1226. (From Hyssong OFLC) Further Deptels 1111 and 1012 and Embtel 1523. Department believes that as soon as possible after Luboshez's return, conferences concerning surplus bulk sale agreement should be resumed at high diplomatic level. Luboshez should act as delegate. ETA²⁸ Shanghai Monday, 30 August.

If possible, agenda should be confined to following points:

A. Acceleration of removal of surplus from islands either by return to China or by sale elsewhere.

B. Mutual agreement that FLC will present and China will accept all notices of availability of property declared surplus not later than a definite date still under negotiation with owning agencies. Anticipated date is 31 October; however, Embassy will be advised later after definite date has been agreed to by OFLC and owning agencies. If China so desires, it is agreeable to Department to set later date for notices covering scrap, provided further agreement is reached that for any scrap not removed by some definite date (to be negotiated) title will revert to U. S.

C. Firm determination of China's intentions regarding disposition property on certain islands where China has to date indicated no

²⁸ Estimated time of arrival.

intention of taking action, although title has passed under terms of Article 2a of agreement.

D. Luboshez advises that Embassy believes fair chance exists getting agreement by China that no claim will be made under disparity clause of agreement, by considering that U. S. will have generally fulfilled its obligation by having made available to China all of the surplus property located in the areas covered by such agreement. Department not optimistic re Chinese agreement, but if such is your belief, Department agrees strong attempt should be made settle that issue on that basis. For Embassy's info only, if waiver [of] warranty clause not obtainable foregoing basis, Department anticipates bargaining for waiver in course negotiation settlement war obligations. If China attempts to bring figures into disparity discussion at this time, Department believes it may be resisted on grounds such figures can never be accurately determined and cannot even be estimated until all removals have been completed. [Hyssong.]

MARSHALL

893.24 FLC/9-248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 2, 1948—5 p. m.

1259. Cut off date China contract subject. (Ur 1610,²⁹ SFLC 388³⁰ and Dept 1226). Based on statements by owning agencies, acceptable cut off date for all declarations except scrap is any date between 30 Sep and 31 Dec 1948. Separate acceptable cut off date scrap declarations is any date between 30 Sep and 31 Mar, conditioned on further agreement by Chinese that scrap be removed within period 6 months from date availability notice or 30 June 1949, whichever is earlier.

Related subject. Urge decision transfer additional moneys to Engineering Fund be reached soonest and this office kept abreast all negotiations.

MARSHALL

893.24 FLC/9-448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 4, 1948—2 p. m.
[Received September 4—12 : 19 p. m.]

1628. In compliance Deptel 1226, August 24, we discussed surplus bulk sale agreement at Foreign Office September 2. After long discussion, it was agreed as follows:

²⁹ Dated September 1, not printed.

³⁰ Dated August 31, not printed.

1. Although Chinese had given notice of termination Vinnell and Marsman contracts on August 24, they would proceed immediately toward renegotiation at lower costs and in addition promised every effort accelerate removal surplus from island[s].

2. We would address note Foreign Office suggesting amendment agreement so as to permit transfer from transportation to engineering allotment of US \$3 million. This sum is not to be used for time being for rehabilitation purposes in Shanghai. Chinese made strong plea for interpretation of spirit of agreement which they claimed should permit diversion of up to US \$1 million for rehabilitation in Shanghai. They pointed out that under our interpretation they could still follow uneconomic procedure of concentrating surplus on any [say] Guam rather than Shanghai and accomplishing rehabilitation there effecting payment from engineering funds. They fail to understand our reasoning which they feel would prevent them from following the more economical procedure of concentrating the surplus in Shanghai and rehabilitating it there. Luboshez maintained firm position that we could not permit such diversion but on strong representation from Chinese we agreed to submit matter to Department for further instructions. Even at risk of affording Chinese opening wedge for future similar requests, we would be inclined to go along with them.

Notwithstanding our arguments re disposition of property on certain isolated islands, Chinese took firm position that where removal is completely uneconomic island should be withdrawn from agreement. They plan to present us with requests to that effect and mentioned specifically that if we could withdraw Eniwetok from the agreement³¹ for our own reasons leaving only two smaller and less important islands in the Marshalls from which it would be uneconomical for the Chinese to remove the surplus, then they are justified in requesting the withdrawal of the other Marshall Islands in the agreement as well.

At the very close of the discussions Chinese raised the question of disparity which we brushed aside by saying matter could be considered when operations under agreement had been completed; that our best information indicated that it would be impossible to reach an accurate determination of dollar and cents benefits to each country under the agreement, particularly as there were other elements involved; and that furthermore if discussions of disparity were to take place, they should be in the first instance at high policy level.

Question of terminal date for declarations was mentioned and although neither side was in position give definite commitment thinking [of] Chinese seems to be October 31.

Luboshez concurs.

We should appreciate Department's early instructions.

Sent Department 1628; repeated Shanghai 776 for Luboshez.

STUART

³¹ Accomplished by letter of November 20, 1947, from Captain Luboshez to General Kiang (893.24 FLC/12-1147).

893.24 FLC/9-1648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 16, 1948—6 p. m.

[Received September 16—7:23 a. m.]

1709. For Luboshez from Clark. After discussion with Tung Ling, Foreign Office, it appears question of cut-off now [date] poses [no]³² serious obstacle. Chinese prepared agree October 31 (WAR 89050³³). Principal obstacle to agreement appears to be General Kiang's determination to select surplus property. In Dr. Tung's mind, this seems involved with a definition of "scrap". To both Dr. Tung and to me it would seem there is ground here for compromise and that some of Kiang's fear that he is having scrap dumped on him as surplus property might be removed if a definition of scrap could be agreed upon which would be sufficiently broad to cover surplus, the value of which is, in fact, only as scrap. Suggest you discuss this matter with General Kiang as Foreign Office feels no further formal discussion Nanking would prove profitable until agreement this vital problem has been reached between FLC and Bosey.

Sent Shanghai 815, repeated Department. [Clark.]

STUART

893.24 FLC/9-1748: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, September 17, 1948—7 p. m.

[Received September 17—8:30 a. m.]

2050. Luboshez to Clark. Cite SFLC 3267.

Part 1. Views Foreign Office as contained urad 815 (repeated Department 1709) lose sight of fact (a) that negotiations over long period with General Kiang in connection with cut-off date have proved abortive, (b) that procedure suggested is contrary to Washington's purpose in arranging meeting at diplomatic level to reach agreement, (c) basic problem is primarily establishment cut-off date and in no sense to modify terms bulk sale agreement which would be involved if Bosey were permitted to select and reject among items turned over.

Part 2. General Kiang has unilaterally adopted 30 June 1948 as cut-off date. He is using this position as bargaining point in order force renegotiation terms of agreement and to obtain relief from obligations undertaken in good faith by Chinese Government in return for values given by US. Apparently he is trying convey impression to Foreign

³² Bracketed changes made on basis of Embassy file copy of telegram.³³ Dated September 10, not printed.

Office that he is making concession in agreeing to cut-off date and therefore China entitled to concessions in form of gaining relief from Chinese obligation to accept and remove all property turned over under agreement regardless of condition. Kiang has now reverted to arguments on condition of property he advanced during original negotiations of agreement which were rejected by Chinese and US mediators. Our contentions and contentions of Washington are that since agreement provides no cut-off date, cut-off date must be mutually agreed upon without concessions from either side. Thus no question of modification of terms of agreement arises.

Part 3. Negotiations on cut-off date of FLC-Bosey level broke down long ago and decision was taken by Department to attempt to reach agreement through diplomatic channels. Luboshez was designated by Department as delegate in negotiations with Foreign Office in order raise discussions above Kiang's level. Thus further discussion on this subject with Kiang inappropriate.

Part 4. [At] September 2 meeting Luboshez emphatically stated position that issue cut-off date was entirely separate matter from condition of property. Further condition property if admissible at all was matter for discussion under disparity clause and discussion disparity cannot be held until all property sold under agreement has been turned over to China.

Part 5. Although it is necessary to avoid deadlock, any compromise such as proposed by Foreign Office is untenable because:

(a) Effect would be to open terms bulk sale agreement to renegotiation.

(b) If we should agree to consider or change condition classification on property made available after June 30 we would be opening way for re-examination in same light every lot of property made available since beginning operations under agreement large proportion of which Bosey has contested on grounds condition.

(c) During original negotiation of agreement Chinese insisted on definition of scrap but after it was found no satisfactory definition could be reached Chinese conceded this point in return for concession by US on monetary consideration given by China.

Part 6. Urgent that cut-off date be settled earliest to permit operational arrangements with Army and Navy be completed within deadline contemplated by proposed October 31 cut-off. Therefore request new meeting with Foreign Office be scheduled soonest along lines agenda transmitted [by] American Consul, 1551, dated 14 September,³⁴ but primarily for purpose establishment cut-off date.

Sent Nanking 1572, repeated Dept. [Luboshez.]

CABOT

³⁴ Telegram No. 1551 from the Consul General at Shanghai to the Ambassador in China, not printed.

893.24 FLC/9-1648 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 17, 1948—8 p. m.

1335. (Reur 1709.)

Part 1. Department emphatically reaffirms that United States cannot accede to Chinese proposal take surplus property on selective basis. Among other things, this Bulk Sale Agreement predicated on basis Chinese would take bad with good. In the light of the consideration received from the Chinese for the surpluses covered by the Bulk Sale Agreement, it is obvious that variations in the condition of property turned over to the Chinese were taken into account at the time of negotiations in 1946. When the Chinese signed the Agreement, they acknowledged and accepted the terms and conditions. Any attempts on part Chinese to distort basic contract into selective purchasing cannot be reconciled with the facts and with the terms of the contract. It must be recognized that the contract signed at Shanghai on August 30, 1946, is one of sale as distinguished from a contract to sell. When the representatives of the two governments signed the contract, the effect was to pass to China all of the surplus property involved and to discharge, as of the time of signing, the indebtedness of the United States for Yuan advances and expenditures by China for United States account. These were the main effects of the agreement, although there were several executory obligations created by its execution. Among other things, the Chinese have failed in the performance of one of the most important of these executory obligations in that they have not caused the prompt and efficient removal of the surpluses from those territories under non-Chinese jurisdiction. We are at a loss to see why General Kiang's obstinate determination to distort the basic contract is permitted by the Chinese officials to impede the current negotiations at Nanking.

The generally accepted definition of scrap as used in relation to surplus property is "property that has no reasonable prospect of sale except for its basic material content". Based on this definition, in actual practice the determination as to the condition of property turned over to OFLC as surplus is made by the owning agency and OFLC proceeds only on the basis of the declarations made to it. Only when property is declared by the owning agency as scrap should it be turned over to the Chinese as scrap. As far back as June 1946 it was made perfectly clear to the Chinese that scrap was being turned over to them under the Bulk Sale Agreement in consideration for assumption by China of the obligation to dispose of all residual scrap piles in such manner as would hold the U. S. Government harmless

for claims of damage of every description arising out of the storage, movement and disposition of such scrap or other surplus property. Evidently the Chinese now wish to avoid this obligation but are willing to continue to accept quantities of surplus property as scrap without carrying out their part of the bargain.

Department believes U. S. position should be firmly maintained.

Part 2. Department notes discussions apparently taking place Nanking without Luboshez's participation. Pursuant Deptel 1226, August 24, Embtel 1583 August 26, Deptel 1238, August 27,³⁵ and Embtel 1628, Department understood discussions with Chinese would be on basis Luboshez's participation with Embassy vis-à-vis Chinese.

MARSHALL

893.24 FLC/9-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 21, 1948—7 p. m.

[Received September 22—1:59 a. m.]

1742. Accompanied by Luboshez, we called Foreign Office September 21 and discussed surplus property agreement [re] Deptel 1335, September 17. Incidentally previous discussion took place without Luboshez' presence because matter was raised at Foreign Office when we were discussing other matters and we did not have time to call him from Shanghai.

After lengthy discussion with Tung Ling, Chief American Section Foreign Office, regarding adamant position taken by him that Chinese Government stood by its position that cut-off date is June 30, 1948 and his insistence that Foreign Office was under pressure from Bosey to assure that declarations subsequent to June 30 were worth removing, we tentatively agreed as follows subject to approval by Washington and Chinese Government:

1. Subject to agreement on other points, cut-off date will be October 31 for surplus property and December 31 for scrap.

2. Where Bosey finds that property declared surplus subsequent to June 30 is of value only as scrap, OFLC has undertaken to look into matter in endeavor have declaration reviewed, maintaining firmly, however, that final determination solely with owning agency.

3. In any event if property declared surplus is on reconsideration declared scrap it will be deleted from record.

4. Where property has been declared surplus after June 30 and prior to agreement on cut-off date, such property will be renotified to Chinese as surplus and Chinese will be given 60 days from such new notification to take possession and 4 rather than 6 months for removal.

³⁵ Telegrams Nos. 1583 and 1238 not printed.

5. In return from [*for?*] having agreed to our withdrawal of Eniwetok from agreement, Chinese insist they be allowed to withdraw inaccessible islands sufficient to compensate for Eniwetok. They maintain we have agreed to compensate them for withdrawing Eniwetok and they seek this means to that end.

During discussion Dr. Tung undertook to use every effort to expedite removal of property from islands, particularly from Australian mandated territory.

We feel that, if we are to obtain concession from Chinese rigid position on cut-off date, agreement along above lines is likely necessary. Department's instructions are requested. Luboshez has seen this telegram and concurs.

Sent Department 1742, repeated Shanghai 835.

STUART

S93.24 FLC/9-2148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 23, 1948—5 p. m.

1356. FLC here concurs position taken Luboshez, particularly parts 2 and 4 SFLC 3267.³⁶ (ur 1742 and SFLC 3267.)

On that basis FLC approves tentative agreement set forth para 1, 2, 3 and 4 ur 1742, provided effort have declarations reviewed does not go beyond Pacific command level since experience here indicates Army would not give directions local commands contrary their recommendations. Again point out no concession need be made China regarding cut off date, and if necessary unilateral action may be taken by U. S. on basis statement from owning agencies no further surpluses available. Refer para 1, Art 1, Bulk Sale Agreement.

Regarding para 5 1742, FLC agreeable [to] amendment covering deletion foll named islands: Eniwetok, Kwajalein, Majuro, Makin and Roi. This considered equitable action view previous arbitrary withdrawal Eniwetok surpluses. However, point should be made no obligation exists to amend agreement because no charge made for Eniwetok surpluses. Therefore, some concession from Chinese should be obtained if possible.

Connection [with] present negotiations war obligation settlement, Dept needs advice Emb present view possibilities success Nanking negotiations outlined para *d* Deptel 1226, conference agenda. Could above proposed amendment be used bargaining point obtain Chinese agreement waiver disparity clause?

LOVETT

³⁶ Telegram No. 2050, September 17, 7 p. m., p. 718.

893.24 FLC/9-2448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State ³⁷

NANKING, September 24, 1948—6 p. m.

[Received September 26—11:09 p. m.]

[To Shanghai:] For Luboshez. Clark has received letter from Tung Ling September 23 taking exception to Clark's minutes of your conversation of September 21 (see Embtel 835 to Shanghai³⁸) and submitting his (Tung Ling's) version of the minutes of which he requests confirmation. Tung Ling's changes in our minutes follow:

Additional paragraph (new number 2) has been inserted to read: "Scrap is defined as article which has no reasonable prospect of sale except for its basic material content."

Paragraph 2 (new 3) has been amended to read: "Where Bosey finds that property declared surplus subsequent to June 30, 1948 is of value only as scrap, OFLC shall look into matter in endeavor to have declaration reviewed."

Paragraph 4 (new 5) amended to read: "Where property has been declared surplus after June 30, 1948 and prior to agreement on cut-off date, such property will be renotified to Chinese as surplus and Chinese will be given 60 days from date of receipt of such new notification to take possession and after the date of taking possession 4 rather than 6 months for removal."

Paragraph 5 (new 6) amended to read: "As a compensation from its withdrawal of Eniwetok from the agreement the US Government will withdraw declarations of surplus property or scrap on such islands as Bosey considers inaccessible."

Penultimate unnumbered paragraph new number 7 amended to read: "Dr. Tung undertook to use every effort to expedite the removal of property from the islands particularly from the Australian mandated territory and Mr. Clark promised to render the necessary assistance."

Your comments on above changes would be appreciated.

Clark is away from Nanking until September 29.

STUART

893.24 FLC/9-2848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, September 28, 1948—8 p. m.

[Received September 28—5:49 a. m.]

2097. [To Nanking:] Cite SFLC 3311, reur 848.³⁹ Clark's minutes accord my understanding tentative agreement. Fruitless delay to

³⁷ Sent to the Consul General at Shanghai as telegram No. 848.

³⁸ Sent to the Department as telegram No. 1742, September 21, 7 p. m., p. 721.

³⁹ See footnote 37, above.

argue minutes. Tung Ling version unworkable and unacceptable. Request Foreign Office meeting soonest. Signed Luboshez.

Sent Nanking 1598, repeated Department 2097.

CABOT

893.24 FLC/10-148: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 1, 1948—6 p. m.

[Received October 1—10:48 a. m.]

1814. With Luboshez present we had further discussion Foreign Office today Surplus Property Agreement (Deptel 1356, September 23). Although final approval by Chinese Government is necessary, our position has been provisionally accepted subject to selection by Bosey in agreement with FLC of islands to be withdrawn in compensation for Eniwetok. New agreed minutes will be cabled when available.⁴⁰ We did not raise question disparity as we feel Chinese position has been considerably weakened by their demand for compensation at this time for withdrawal Eniwetok. In accepting compensation in form withdrawal other islands rather than waiting adjustment under disparity clause they have given us strong argument for eventual waiver disparity clause. We still believe question of disparity clause can best be considered separately and at high level after conclusion of operations under Surplus Property Agreement.

Luboshez has seen this telegram and concurs.

Repeated Shanghai 887.

STUART

893.24 FLC/10-2848

The Ambassador in China (Stuart) to the Secretary of State

No. 447

NANKING, October 28, 1948.

[Received November 8.]

SIR: As authorized by the Department's telegram No. 1407, October 6, 7 p. m.,⁴¹ repeated to the American Consul General in Shanghai as 1724, the Minister-Counselor addressed a letter to Dr. Tung Ling, Director, American Department of the Ministry of Foreign Affairs, confirming the minutes of the agreement which had taken place on September 21, 1948, regarding the Surplus Property Agreement. A

⁴⁰ Telegram No. 1823, October 4, 11 a. m., not printed; for text of minutes as formally agreed to by the United States and China, see letter from the Minister-Counselor of the American Embassy in China to the Director of the American Department of the Chinese Foreign Office, p. 725.

⁴¹ Not printed.

copy of that letter dated October 8 is enclosed. There is also enclosed a copy of a reply from Dr. Tung Ling indicating the approval of the Chinese Government of the tentative agreement reached on September 21, and expressing the opinion that: "Since the approved minutes shall be binding on both Governments, the letters exchanged between us will be considered as adequate implementation of the Surplus Property Agreement".

I shall appreciate being informed whether the Department agrees that this exchange of letters is all that is required to carry out what in Nanking we have considered to be no alteration of the agreement, but merely agreed measures for its implementation.⁴²

Respectfully yours,

For the Ambassador:

LEWIS CLARK

Minister-Counselor of Embassy

[Enclosure 1]

The Minister-Counselor of the American Embassy (Clark) to the Director of the American Department of the Chinese Foreign Office (Tung)

NANKING, October 8, 1948.

DEAR DR. TUNG: I am writing to acknowledge receipt of your letter of October 1, 1948,⁴³ enclosing minutes of our meeting on September 21, regarding the Surplus Property Agreement.

This is to confirm to you that I have been authorized by the United States Government to say that it approves the agreement we reached, as reported in the minutes enclosed, as follows:

"We tentatively agreed as follows, subject to approval by Washington and the Chinese Government:

(1) Subject to agreement on following points, cut-off date will be October 31, 1948, for surplus property and December 31, 1948, for scrap;

(2) Mr. Clark said that the Army defines scrap as article which has no reasonable prospects of sale except for its basic material content, and added that owning agencies would have that definition of scrap in mind when determining articles to be scrap;

(3) When Bosey finds that property declared surplus subsequent to June 30, 1948, is of value only as scrap, OFLC shall look into matter in endeavor to have declaration reviewed;

(4) In any event, if property declared surplus is on reconsideration declared scrap by owning agencies, it will be made available to China as scrap;

⁴² In telegram No. 1631, November 16, 6 p. m., the Department agreed that "exchange of letters [was] sufficient" (893.24 FLC/11-1648).

⁴³ Not printed.

(5) Where property has been declared surplus after June 30, 1948, and prior to agreement on cut-off date, such property will be renotified to China as surplus and China will be given sixty days from such renotification to exercise her right to possession, and four, rather than six, months for removal after China has acquired right to possession;

(6) As compensation for the withdrawal from Eniwetok, the United States will withdraw from the Surplus Property Agreement certain islands selected by Bosey in agreement with FLC;⁴⁴

(7) In response to Mr. Clark's request, Dr. Tung Ling promised to do what he could to expedite the removal of properties from the Australian Mandated Territory; and, in return, Mr. Clark promised to assist in any way possible."

I should appreciate being advised whether the Agreement has the approval of your Government and whether any further steps are necessary to implement this interpretation of the Surplus Property Agreement.

Very sincerely yours,

LEWIS CLARK

[Enclosure 2]

The Director of the American Department of the Chinese Foreign Office (Tung) to the Minister-Counselor of the American Embassy (Clark).

NANKING, October 26, 1948.

DEAR MR. CLARK: In reply to your letter of October 8, 1948, regarding the minutes of our meeting on September 21, 1948, on the seven points in connection with the Surplus Property Agreement of 1946, I am glad to inform you that my Government has approved the agreement we reached as contained in the said minutes.

Since the approved minutes shall be binding on both Governments, the letters exchanged between us will be considered as adequate implementation of the Surplus Property Agreement.

Very sincerely yours,

TUNG LING

Editorial Note

The text of an amendment, agreed to on January 27, 1949, is in file no. 893.24 FLC/1-2749; OFLC operations came to an end on June 30, 1949, "because virtually all surpluses sold, therefore no funds budgeted next fiscal year" (telegram TelCan 95, April 20, 1949, to Canton, not printed. (893.24/4-1549)

⁴⁴ In telegram No. SFCLC 3367, October 7, the OFLC Shanghai Office reported that Eniwetok, Kwajalein, Roi, Majuro and Makin were withdrawn by agreement with Bosey the same day (893.24 FLC/10-748).

REPRESENTATIONS REGARDING THE RE-REGISTRATION OF AMERICAN REAL PROPERTY RIGHTS IN CHINA ¹

893.52/2-548

The Ambassador in China (Stuart) to the Secretary of State

No. 49

NANKING, February 5, 1948.

[Received February 19.]

The Ambassador has the honor to refer to despatch No. 1108 of November 18, 1947 ² and other previous correspondence regarding the registration of rights to real property owned by Americans in China and to enclose ³ the Chinese text and an English translation of a note dated January 24, 1948 which has been received from the Ministry of Foreign Affairs. The note transmits the text of a ruling by the Executive Yuan regarding the registration of property acquired outside of the "treaty ports" by foreign nationals and registered in the name of Chinese nominees or agents. The ruling is restricted in application to nationals of foreign countries which have signed treaties of equality with China and applies only to property acquired prior to the signing of such treaties.

This ruling, which is the result of continuous negotiation and effort by the Embassy extending over the past year, implicitly recognizes that American owners who registered their properties in the name of Chinese did acquire rights of ownership to the property and that these rights are entitled to legal protection. This constitutes a significant advance over the original Chinese view that such asserted rights were illegally or fraudulently acquired and hence not entitled to legal protection.

As anticipated in the Embassy's despatch under reference, the Ministry of Foreign Affairs does not commit itself with regard to the views expressed in our note of February 17, 1947 ⁴ that property rights of the nature under discussion are fully protected by the 1943 Treaty ⁵ but rather establishes a procedure whereby beneficial owners may register their property and obtain title deeds in their own names.

¹ Continued from *Foreign Relations*, 1947, vol. VII, pp. 1384.

² *Foreign Relations*, 1947, vol. VII, p. 1401.

³ Enclosures mentioned in this despatch not printed.

⁴ No. 721, not printed.

⁵ Treaty Relinquishing Extraterritorial Rights in China and the Regulation of Related Matters, signed at Washington, January 11, 1943, Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

In our opinion it is of the utmost importance in any procedure involving even a *pro forma* transfer of property from the Chinese registered owner to the American beneficial owner that the transfer be considered to have taken place when the American owner commenced to enjoy the rights and privileges of ownership and not at the time of recording and that application for recording the transfer not require the consent or concurrence of the Chinese registered owner. During our discussions with Foreign Office officials, we have repeatedly emphasized these views. The ruling of the Executive Yuan, unfortunately, is not clear regarding these points; consequently, whether the ruling will afford adequate protection to American rights will depend upon the way in which the Land Administration interprets and applies it.

The Embassy officer to whom the Ministry's note was handed commented to the Director of the Treaty Department⁶ regarding the unfortunate ambiguity of the note with respect to these important points, and was assured that although the Ministry of Land Administration had opposed throughout the adoption of the ruling, that ministry, in view of the nature of discussion in the Executive Yuan, would probably not implement it in a manner which we would find unsatisfactory. He added that he anticipated no difficulty with the Land Administration, which is an administrative agency of the Chinese Government and hence amenable to the wishes of the Executive Yuan, but that he was somewhat apprehensive that the Courts may fail to uphold the Executive Yuan ruling. With this in mind he is preparing for the Supreme Court abstracts of pertinent material held by the Ministry of Foreign Affairs in the hope that the Court may be moved to issue instructions to the subordinate courts which would forestall an unfavorable decision.

A circular instruction has been sent to the several consular officers in China transmitting the text of the Ministry's note and cautioning consular officers to follow closely the implementation of the ruling and to report any development which might result in a denial to American beneficial owners of their rights. A copy of this circular instruction is enclosed.

In our reply to the Ministry, a copy of which is enclosed, we have confined ourselves to expressing the earnest hope that the measures will be so implemented as to prove a satisfactory solution of the long standing problem of beneficial ownership and to reiterating and reserving our position as set forth in our note of February 17, 1947.

Should the implementation of the measures approved by the Executive Yuan offer in practice adequate protection for American owners,

⁶ Hu Ching-yu.

the Department may wish to give consideration to the issuance of a suitable press release calling attention of American property owners to the intention of the Chinese Government to require progressively the registration of real property in China and warning them that they should take steps to keep themselves informed, either personally or through their agents and representatives, of the establishment of registration requirements within the districts in which they own property.

893.52/5-548

*The American Embassy in China to the Chinese Ministry for Foreign Affairs*⁷

No. 293

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of China and has the honor to inform the Ministry that, according to a report received from the American Consul General at Shanghai, the Municipal Land Bureau in that city has in certain cases requested American citizens who have applied for the issuance of new title deeds to real property owned by them to supply evidence that the state in the United States of which they are residents permits the ownership of real property by Chinese. The cases to which the Consul General refers are concerned with the registration of property acquired by the American owners prior to the effective date of the Sino-American Treaty for the Relinquishment of Extraterritoriality.

The Ministry may recall that in a note dated June 13, 1947 (No. 947)⁸ the Embassy called attention to a similar disposition on the part of the authorities of the Land Administration in Hopei Province to make no distinction, in so far as the applicability of the restrictive provisions of the Chinese Land Law respecting ownership of land by foreign nationals is concerned, between real property title to which was obtained by Americans prior to the date of the Treaty and property title to which was acquired subsequent to that date. At that time the Embassy expressed the firm conviction that the application of the restrictive provisions of the Land Law to American property acquired prior to the effective date of the Treaty constituted a violation of Article IV of the Treaty. In view of the report referred to above which has now been received from the American Consul General at Shanghai, the Embassy is constrained to reiterate this conviction and to ask that steps be taken to apprise the appropriate officials at

⁷ Copy transmitted to the Department by the Ambassador in China in his despatch No. 213, May 5; received May 19.

⁸ Not printed.

Shanghai of the provisions of the Treaty in so far as they apply to American property rights acquired in China prior to the effective date thereof.

NANKING, May 4, 1948.

Nanking Embassy Files, Lot F79, 852 Land

The American Embassy in China to the Chinese Ministry for Foreign Affairs

No. 371

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of China and with reference to its note No. 293 of May 4, 1948 has the honor again to call the Ministry's attention to delays and difficulties which American citizens who acquired rights to real property in Shanghai prior to the effective date of the 1943 Sino-American Treaty are encountering in obtaining title documents for their property although formal applications therefor were made pursuant to the regulations of the Bureau of Land Administration.

The American Consul General at Shanghai recently discussed this problem with Mr. Chu P'ing, Commissioner of the Bureau of Land Administration at Shanghai, pointing out to the Commissioner that applications for the registration of property held by Americans prior to the 1943 Sino-American Treaty were supported by consular certificates regarding the ownership of the property and that in his opinion such certification should be sufficient proof of American property rights unless there was evidence of fraud or similar irregularity. The Consul General at that time pointed out that according to his information the Bureau of Land Administration at Shanghai had been establishing additional requirements which seemed to go beyond provisions of the Treaty.

In reply the Commissioner informed the Consul General that he had referred to Nanking the question of procedure to be followed in the revalidation of American property rights but that he had received as yet no instructions.

In order that the issuance of new title deeds to American property owners may proceed without further delay and in order that the apprehension of American property owners in Shanghai may be removed the Embassy urges that appropriate authorities of the Chinese Government issue clear and unequivocal instructions to the Bureau of Land Administration at Shanghai leaving no opportunity for further obstacles and eliminating as far as possible the possibility of future controversy on the interpretation of the pertinent Treaty rights of American real property owners.

NANKING, June 2, 1948.

Nanking Embassy Files, Lot F79, 852 Land

*The Chinese Ministry for Foreign Affairs to the American Embassy
in China*

[Translation]

No. Wai-(37)-T'iao-Erh/18889 NANKING, August 10, 1948.

The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to refer to the Ministry's third person note No. Wai-(37)-T'iao-Erh/13897 of June 10, 1948⁹ concerning the request for the issuance of title deeds for real property acquired by American citizens in Shanghai prior to the effective date of the Sino-American Treaty of 1943.

The Embassy is informed in reply that this matter was referred to the responsible land administration authorities from whom the following reply has been received :

[With regard to the point that the registration of and the issuance of title deeds for the aforementioned right to real property should be handled separately from right to real property acquired after the effective date of the Sino-American Treaty of 1943, action has already been taken by the Shanghai Municipal Land Administration Bureau in accordance therewith. Furthermore, the American Consulate General at Shanghai has been so advised¹⁰ in writing by that Bureau.¹¹]

MINISTRY OF FOREIGN AFFAIRS
OF THE REPUBLIC OF CHINA

893.52/9-148

The Consul General at Shanghai (Cabot) to the Secretary of State

No. 779

SHANGHAI, September 1, 1948.

[Received September 6.]

SIR: I have the honor to refer to a meeting held this morning with the Commissioner of the Shanghai Land Bureau, Mr. Chu Ping, to discuss the status of American nationals in Court actions involving title to real property held under Consular deeds. It was pointed out to Commissioner Chu Ping that very few new ownership title deeds had been issued by his office in exchange for Consular title deeds submitted by American nationals (owners of property prior to 1943) although such land re-registration was contemplated by the Sino-American Treaty of 1943. Commissioner Chu Ping spoke of the heavy workload which had been superimposed upon his limited staff by reason of this re-registration, such re-registration activity being in addition to the performance of his normal functions.

⁹ Not printed; it was an interim reply to the Embassy's note No. 371, *supra*.

¹⁰ In a letter dated July 8, not printed.

¹¹ Brackets appear in the file translation.

The Commissioner's attention was drawn to the recent Chinese Supreme Court judgment (37th year, Series "Chang" No. 446) involving a Danish subject named A. Corrit as appellant and the New Asia Hotel in Shanghai as Appellee. (A translation of the judgment, unclassified, is attached.)¹² Although the Appellant did apply on March 9, 1946 for registration of the New Asia Hotel, a new deed of ownership had not been issued and hence the Supreme Court sustained the action of the lower Courts (under Article 24 of the Land Law requiring registration) in finding that the appellant did not have legal title to the property and thus was not entitled to bring legal action against trespassers on such property. The Commissioner was advised that possible application of the principle involved in this judgment to litigation involving American nationals was a matter of considerable concern. Commissioner Chu then stated that, in event of litigation where the title of American nationals to property was involved, his office would issue a certificate of beneficial ownership having the same standing in court as ownership title deeds.

This undertaking on the part of Commissioner Chu should be treated as confidential since it is unlikely that the same consideration is being extended to other foreign nationals.

Present at the interview with Commissioner Chu Ping were American Consul Harry L. Smith, Mr. C. H. Tung of the American Consulate Staff and Mr. John Yen of Commissioner Chu's staff.

Respectfully yours,

JOHN M. CABOT

893.52/9-748

The Secretary of State to the Ambassador in China (Stuart)

No. 181

WASHINGTON, September 7, 1948.

The Secretary of State refers to despatch no. 341 of December 22, 1947 from Shanghai,¹³ concerning Standard-Vacuum's difficulties in registering the purchase of land from a former employee. Reference is also made to subsequent exchanges of telegrams with Shanghai concerning this case.

After careful study of the Treaty of 1943 and the legal implications of the land authorities' insistence on prior application to the Government by Standard-Vacuum and vendor for approval of this transaction, the Department concludes that the manner in which the Land Bureau, Shanghai, is attempting to enforce Article 20 of the Land Law in this case is in contravention of treaty rights of Americans under Article IV of the Treaty of 1943. That Article of the Treaty

¹² Not printed.

¹³ *Foreign Relations*, 1947, vol. VII, p. 1404.

specifically requires prior express consent of the Chinese Government for transfer of land by American nationals only in case of transfers to third nationals. Record of negotiations indicates that the intention of inserting this provision, which was inserted at the request of the Chinese, was to enable the Chinese Government to prevent transfers to third nationals without Chinese consent. Further, by Article IV the Chinese Government agreed that new deeds should protect owners without diminution of prior rights and interests, including right of alienation. It follows that Americans possessing land acquired prior to the effective date of the Treaty are free to transfer to persons of their choice without securing prior consent of the Chinese Government, except in the case of transfer to third nationals.

Article 20 of the Land Law, on the other hand, requires all foreigners purchasing land to apply, together with vendor, to the Chinese Government for prior "consideration and approval", which clearly implies a right of the Chinese Government to disapprove. This is a requirement which the Land Bureau is attempting to enforce in the Standard-Vacuum case, and the Department therefore concludes that the procedure insisted on by the Land Bureau is in violation of treaty rights.

The Embassy is instructed to take up the case with the Foreign Office and other appropriate officials,¹⁴ pointing out the inconsistency of strict application of Article 20 of the Land Law with the Treaty in such cases, and requesting them to instruct the Land Bureau at Shanghai to waive this requirement in such cases. The Embassy should make clear that we have no objection to any procedure intended merely to ascertain the nationality of parties to the transaction and the fact that the land in question is actually protected by the Treaty, but that we cannot admit any right of the Chinese Government to refuse approval of such cases. Approval of such transfers should be automatic and immediate, and the normal procedure of applying to the Land Bureau for registration of transfer and issuance of a new deed in the name of the purchaser allows sufficient opportunity to check the facts of the case. Should the Chinese believe that *pro forma* compliance with the law is necessary, the Embassy might point out that appropriate authorities could instruct the Land Office to approve such transfers immediately upon application for registration without requiring applicants first to go through the cumbersome and dilatory process of prior application to municipal or district authorities for approval.

¹⁴ No indication of Embassy action found in Department files.

REPRESENTATIONS BY AMERICAN EMBASSY REGARDING CHINESE CENSORSHIP OF AMERICAN MOTION PICTURES

893.4061 MP/7-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 14, 1948.

[Received July 22—8:07 a. m.]

1288. Embassy has received Foreign Office note stating that henceforth no foreign motion pictures may be shown in China either commercially or at an open showing on a non-commercial basis without prior censorship by Ministry's Cinematograph Censoring Bureau. After censorship permit will be issued.

Sent Shanghai as 615; repeated Department as 1282 [1288].

STUART

893.4061 MP/8-1148

The Ambassador in China (Stuart) to the Secretary of State

No. 343

NANKING, August 11, 1948.

[Received August 26.]

The Ambassador has the honor to refer to his telegram No. 1288 of July 14 concerning censorship regulations on showing of motion pictures in China and to enclose for the information of the Department a copy of the note on this subject from the Ministry of Foreign Affairs¹ together with a copy of the Embassy's reply thereto protesting this action by the Chinese Government. The chief of the press bureau of the Foreign Office has called at the Embassy to discuss the Embassy's reply. He stated that this action was directed solely at the Soviet Union and the films which it has been showing in Sinkiang, Peiping and Tientsin; but that the Chinese Government did not feel it is in a position to take action solely against the Soviets. He added that the United States is the only Government which has protested the regulations so far. He then went on to say that the Foreign Office regretted the necessity of this action and that he hoped this Embassy could cooperate with him in drafting a reply to the Embassy's note which would be mutually satisfactory since he felt sure the mechanics

¹ Not printed.

of censorship could be handled expeditiously and that in any event there was not the slightest intent to restrict the showing of any American motion pictures.

In reply he was informed that the Embassy was not objecting to the inconvenience of censorship as he could tell from our note, but rather that we were protesting the principle of censorship. The United States is publicly committed to the principle of freedom of information, not only by its own actions but also by its obligations to the United Nations. The same applies to China. Therefore, it would be difficult to see how the United States could compromise with this principle. The director then stated that there seemed to be nothing gained from further discussion. He implied that there was no chance of any modification in the regulations.

The Embassy is increasingly concerned at what appears to be a growing tendency of the Chinese Government to impose blanket restrictions and when queried on the reasons therefore, to blame it all on the Soviets. It is difficult at the moment to estimate just how much of this line of reasoning is actually attributable to Chinese fears of the Soviets and how much of it is just simply convenient alibi to cover up what they really want to do. The Embassy is following this situation and will report more fully at a later date. It is quite true, as the Department is aware, that both the Generalissimo² and Foreign Minister³ on various occasions have stated that because of American commitments in Europe, China will at this time take no action which might irritate or annoy the Soviets. Part of the motivation behind these statements is unquestionably fear, but it is also difficult to resist the suspicion that another part of the motivation is rather unsubtle form of blackmail. The Embassy would venture a suggestion that there is little in the experience of dealing with the Soviets which would warrant the hope that this kind of tenderness for Soviet susceptibilities is calculated to deviate them from their ultimate objectives. In this connection the Department is referred to the Embassy's despatch No. 344 and airgram No. A-207.⁴

[Enclosure]

The American Embassy to the Chinese Ministry for Foreign Affairs

No. 601

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of China

² Chiang Kai-shek, President of the National Government of the Republic of China.

³ Wang Shih-chieh.

⁴ Neither printed; they reported anti-American propaganda efforts.

and has the honor to refer to the Ministry's third person note No. Wai-(37)-Ching-Erh/16259 of July 10, 1948,⁵ concerning the issuance of permits by the Ministry of the Interior for the exhibition of foreign-made motion pictures, including those lent to Chinese circles by foreign diplomatic missions and consular offices.

The Embassy understands that the proposed licensing will apply to motion pictures prepared or acquired for the special use of the United States Information Service, an agency of the United States Government. It therefore invites the attention of the Ministry to the fact that the Government of the United States does not require permits for films exhibited on a non-commercial basis by foreign missions and consular offices or their respective information services; nor does the Government make any attempt to license films exhibited in the United States by the China News Service or its agents. Consequently the proposal of the Ministry of the Interior appears to be made without regard to reciprocal treatment.

The Embassy wishes to point out that the requirement of permits implies the power to censor and to suppress. The films shown by the United States Information Service are designed to convey factual information on the United States of America, and censorship or suppression of such films can only constitute a restriction on the free flow of information between nations. Acquiescence by the United States Government in the censorship and suppression of its own motion pictures implies acquiescence in the censorship and suppression of its own news reports, transmitted by radio broadcasts and newspaper releases. The experience of the last fifteen years has thrown into sharp relief the deformities of political and intellectual character which have occurred in those nations which have imposed or accepted such restrictions. It will also be recalled that at the United Nations Conference on Freedom of Information at Geneva in April of this year resolutions favoring the free exchange between nations of information and condemning censorship were adopted with the concurrence of both the Chinese and American delegations.⁶

The Embassy wishes further to emphasize the evils attendant upon a general requirement of pre-exhibition licensing under the police power and judicial or diplomatic action after exhibition in respect of particular films. The very requirement of permits creates in the mind of the public a conviction that the films actually shown are only a fraction of those which the United States Information Service is endeavoring to show, and that other films are being suppressed. However unjustified this assumption may be, it will arise, and there

⁵ Not printed.

⁶ For texts, see Department of State, *United Nations Conference on Freedom of Information*, p. 25.

may be expected a loss of public confidence in both the Ministry of the Interior for imposing such censorship and in the United States Information Service for accepting it.

The Embassy has therefore the honor to request that the censorship and licensing activities of the Ministry of the Interior shall not be extended to motion pictures shown on a non-commercial basis by the United States Information Service.

NANKING, August 6, 1948.

893.4061 MP/10-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 11, 1948—6 p. m.

[Received October 12—1:19 a. m.]

1886. Foreign Office note ⁷ replying to Embassy note copy of which we enclosed in Embassy confidential despatch No. 343, August 11, concerning censorship regulations on motion pictures, states that to waive the censorship on USIS ⁸ films "would be inappropriate since it is a general ruling. However, since representation has been made in writing the Ministry's Motion Picture Censorship Bureau will be instructed to extend as full and as prompt facilities as possible in handling of such matters".

Embassy sees little use further protest and suggests we inform Chinese Foreign Office that we note with regret Chinese Government's insistence film censorship and reluctantly agree to comply therewith, expressing our conviction measures provisional only during national emergency.

On question of principle of censorship we have protested fully (see enclosure Embassy despatch under reference) and our position is on the record. Department may wish to take occasion to mention its disapproval of censorship also to Chinese Embassy Washington. Foreign Office has assured us as reported reference despatch of expeditious handling of mechanics of censorship. It would seem unwise to further belabor our point on principle when National Government is engaged in serious civil war and feels need of taking, rightly or wrongly, extreme precautionary measures in many fields.

Department's instruction requested.⁹ Sent Department 1886; repeated Shanghai 918.

STUART

⁷ September 30, not printed.

⁸ United States Information Service.

⁹ No record found in Department files that an instruction was sent.

AGREEMENT BETWEEN THE UNITED STATES AND
CHINA REGARDING CLAIMS RESULTING FROM ACTIV-
ITIES OF UNITED STATES MILITARY FORCES IN CHINA

[Effected by exchange of notes signed at Nanking, October 13, 1947,
and March 17, 1948, Department of State Treaties and Other Interna-
tional Acts Series No. 1776, or 62 Stat. (pt. 2) 2116.]

AGREEMENT BETWEEN THE UNITED STATES AND
CHINA REGARDING ENTRY OF RELIEF SUPPLIES AND
PACKAGES INTO CHINA

[Effected by exchange of notes signed at Nanking, November 5 and 18, 1948, Department of State, *United States Treaties and Other International Agreements*, volume III (1952), pt. 4, page 5469; or 62 Stat. (pt. 3) 2950.]

NEGOTIATIONS BETWEEN THE UNITED STATES AND CHINA RESPECTING JOINT EFFORTS IN THE EXPLORATION OF CHINA FOR MINERALS OF IMPORTANCE IN THE ATOMIC ENERGY PROGRAMS OF THE TWO GOVERNMENTS ¹

893.6359/1-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 2, 1948—11 a. m.

[Received January 2—4:18 a. m.]

1. Dr. Wong Wen-hao ² asked December 30 whether Embassy had received word regarding Keiser ³ and proposed agreement (reEmbtel 2265, November 20, 1 p. m. and Deptel 1421, November 22, 6 [5] p. m. ⁴)

He said he had discussed agreement with Generalissimo ⁵ who had expressed approval [in principle]; Wong added he had also discussed agreement with premier. ⁶ From these two conversations Wong apparently has decided that Executive Yuan will have to approve agreement and not only Generalissimo as previously stated.

Wong expressed hope that agreement would be approved by AEC and that Keiser would soon return to China. He said he was leaving Nanking about January 3 for trip to Hankow and Canton and would be gone about 20 days, adding that nothing presumably could be done about securing approval of agreement during his absence.

Indicating that Chinese may possibly have adopted devious means to prod US into action in fact Swiss Minister December 30 called on Minister-Counselor ⁷ giving info regarding matters discussed Embtels 2006, October [1], and 2042, October 8. ⁸ He stated Chinese Minister at Bern had approached Swiss Government with suggestion it might send geologists to China to make surveys; that such action had been discussed by Swiss Minister here with Wong who had indicated willingness have Swiss geologists come; but that few days ago Swiss

¹ Continued from *Foreign Relations*, 1947, vol. VII, pp. 1018-1029.

² Chairman of the Chinese National Resources Commission.

³ Hubert D. Keiser, representative of the Atomic Energy Commission, who had negotiated preliminary agreement in late 1947.

⁴ *Foreign Relations*, 1947, vol. VII, pp. 1025 and 1028, respectively.

⁵ Chiang Kai-shek, President of the National Government of the Republic of China.

⁶ Chang Chun.

⁷ Lewis Clark.

⁸ *Foreign Relations*, 1947, vol. VII, pp. 1021 and 1024, respectively.

Minister informed by Wong that deal being made with US Government and that American geologist had recently been here to conduct negotiations, adding that American geologist in question had merely visited China for few weeks while on trip to various countries in Far East.

STUART

893.6359/1-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 30, 1948—10 a. m.

[Received January 30—9 : 29 a. m.]

184. In letter dated January 28 Dr. Wong Wen-hao refers to Keiser visit (reEmbtel 1, January 2, 11 a. m.), pointing out that "more than 2 months have passed since his departure from Nanking and no news has yet been received. You understand that in view of entering into cooperation with the American side it was necessary for me to take up some concrete measures for preparing the way. It is natural that some definite reply from Washington is expected here. Would it be possible for your Embassy to find out exact situation and let me know whether draft agreement made 2 months ago will be accepted or not."

We would appreciate being informed re present status this matter, with suggestion as to reply to be made to Dr. Wong.

Keiser may be interested in knowing that Hsieh, director of Mineral Exploration Bureau, NRC,⁹ inquired few days ago regarding counter which he said he would like to take with him on trip to Fukien province. Informed Keiser had taken counter with him, Hsieh suggested Embassy might ask Keiser to send one to Nanking for Hsieh's use. We replied to effect that Keiser very likely would not wish to send counter to Nanking owing to possible damage enroute, the counter's unreliability, and fact that no decision reached on draft agreement. However, we said willing refer request to Keiser.

STUART

893.6359/3-2448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 24, 1948—11 a. m.

437. A ReDeptel 279, Feb 19.¹⁰ Please submit to Chinese authorities following version of draft agreement relating to proposed field exploration in China.

"(First five paragraphs are the same as in urtel 2265 Nov. 20.)¹¹

6. The United States Government agrees to furnish to the Chinese Government complete reports of the field explorations made, includ-

⁹ National Resources Commission.

¹⁰ Not printed.

¹¹ *Foreign Relations*, 1947, vol. VII, p. 1025.

ing analyses and estimates of reserves and on its part the Chinese Government agrees not to make such information available to any third party without due prior consultation with the United States Government. It will also furnish on a loan basis for the period of the joint exploration portable field counters for the use of the Chinese members of the Party. Instruction manuals and literature pertaining to the construction and application of said field counters will be provided by the United States Government, and also detailed information as to methods, materials, and equipment required for accurate chemical, mineralogical, and radiometric determinations of the uranium, thorium, and other valuable metal content of the samples collected during the field exploration. The American Leader will demonstrate to the Chinese members the application of the field counters. The United States Government also agrees to assist the Chinese Government in arranging for the export to China of such materials and equipment that the Chinese Government and the United States Government agree are necessary to implement the exploration proposed. Such materials and equipment will enter China duty free.

7. The Chinese Government agrees to furnish to the United States Government complete information relative to the known occurrences of uranium and thorium in China, and also complete reports of the field explorations made, including analyses of samples and estimates of reserves. The Chinese Government will permit the export to the United States of adequate samples for laboratory analyses and also of other adequate samples for metallurgical tests.

8. It is agreed that the cooperative work outlined above will have a term of 2 years counted from the day of arrival of American members of the Party in China, after which further cooperation with respect to production of source materials, if deemed desirable, will be mutually considered.

9. The Chinese Government further agrees that during the term of the field exploration referred to above it will not enter into technical cooperation with any other foreign country for the purpose of exploring in China for uranium, thorium, and other minerals of importance in the atomic energy program of the two Governments or the production thereof."

B. For your information, this draft sets forth what Dept believes to be as much as we can offer Chinese at this time in terms of information and facilities relating to atomic energy.

C. Principal difference between latest Chinese draft and above text is omission of the provision engaging US to establish laboratory in China for exploitation of results of the survey and for subsequent peaceful utilization of atomic energy and elimination of undertaking to train Chinese atomic physicists in this country. The new paragraph 6 also includes a stipulation that Chinese will not reveal information to a third party, which is consistent with a similar provision in new paragraph 9. Moreover, procurement of materials for the project in this country is to be by cooperation between Chinese and US Govt which is more appropriate since account must be taken

of possible US production and export control requirements, which would be adapted to accommodate such procurement and transfer. Such materials would enter China duty free.

D. The last part of last sentence of old paragraph 7 appears unnecessarily restrictive and has been dropped.

E. In presenting this new version to Chinese you might say that what both parties primarily want to accomplish is a fact-finding survey. When it is known what may be available, how much, and where, the two parties would then be in better position to discuss future collaboration like that envisaged in paragraph 9 of latest Chinese text. In meanwhile, of course, possibilities of further fruitful cooperation would be affected by concessions to third parties before the facts were established.

F. The Chinese draft seems to reveal that Chinese and US seem to be thinking along similar lines as to initial exploration. As to next stage, that of exploitation, the parliamentary and interior situation in each country would have to be considered by its govt.

G. It is probably wiser not to prejudice that consideration in advance by making too many stipulations now. If there should be material of interest to us in China, then US would certainly be prepared to consider further plans for facilitating its exploitation in interest of our common security and benefit.

H. Incidentally, old paragraph 9 in Chinese text seems to strike too optimistic note with respect to imminence of peaceful uses of atomic energy. Except for some research uses, these seem to be still remote, and require vast capital and industrial plant to realize.

I. In addition to above you may say, in your discretion, if necessary, that what Chinese ask of us in old paragraph 9 of their text is more than that required by any other country which has permitted or requested us to undertake similar joint surveys. Also, for your own information or most discreet use, the Atomic Energy Act of 1946,¹² Section 10 (copy being forwarded to you airmail) contains stringent provisions with respect to dissemination of information about industrial uses of atomic energy. Eventual application of these provisions to Chinese situation can only be measured in light of extent and value to us of material ultimately to be found in China.

J. With reference to last paragraph of urtel 2265, present thinking in Dept is that agreements should be as informal as possible; verbal understanding evidenced by some agreed record of conversation would probably be satisfactory. Question is under consideration and you will be advised further, but meantime for purposes of discussion you should proceed in negotiations with Chinese on basis of provisional

¹² Public Law 585, approved August 1, 1946; 60 Stat. 755.

formal draft text given above. You may explain to Chinese that any eventual understanding should probably be in such form that it would not require registration with the UN under the terms of the Charter.

K. You may discuss this message with your British colleague and keep him informed. Dept in contact with British Emb here. Participation by British in survey or discussions at this stage not at present contemplated subject to further instructions.

MARSHALL

893.6359/3-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 26, 1948—4 p. m.

[Received March 27—8:02 a. m.]

549. Revised draft handed March 26 to Wong Wen-hao who said he wished to study several days. He did not appear unduly affected by omission of provision engaging US establish laboratory in China and elimination of undertaking train Chinese physicists in US. However, he expressed opinion that, in order enable him have support from such Chinese Govt organs as Academia Sinica and Geological Survey, it might be desirable insert in agreement some statement providing for eventual assistance in setting up laboratory in China and training Chinese physicists in US.

Regarding (J) urtel,¹³ Wong expressed approval suggestion make agreement as informal as possible but said agreed record of conversation too informal. He reiterated opinion previously expressed, that agreement could appropriately be provided for by exchange of letters, presumably between himself and Ambassador.

Embassy will report Wong's specific comments in few days.

Executive Yuan last week promulgated regulations governing prospecting, exploitation and exporting uranium and thorium, translation of which will be submitted.¹⁴ Wong said March 26 he had drafted these regulations with specific intent of omitting any features which might adversely affect Sino-US collaboration and of including provisions which would enable him carry out Chinese part of such collaboration.

STUART

¹³ Telegram No. 437, March 24, *supra*.

¹⁴ Despatch No. 154, April 1, not printed.

893.6359/5-2148 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 26, 1948—3 p. m.

783. Ref urtel 924, May 21.¹⁵

1. Wong's appointment [as] Premier noted. Dept hopes this permits resumption negotiations early date.

2. Regarding Wong's desire for eventual assistance with respect laboratory and training physicists in US (urtel 549, Mar. 26) if Emb unsuccessful in obtaining acceptance views included (E) Deptel 437, Mar. 24, permissible include in agreement that US will consider appropriate future assistance to be extended China on basis factual results joint survey.

3. Re (J) Deptel 437, question still under consideration. Emb will, of course, not finalize understanding pending further instructions, but if possible should continue to negotiate on basis points given in telegram in reference.

MARSHALL

893.6359/6-948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 9, 1948—5 p. m.

859. Ref para 3, Deptel 783, May 26. It is Dept's view that, if necessary, agreement can be rationalized on basis of provisions included Article II, III and XVI, of new Treaty of Friendship, Commerce and Navigation with China.¹⁶

We suggest at appropriate time you indicate merely that US considers matter not subject UN registration requirements. In event Chinese query reasoning underlying this position, you should refer in general way to above treaty provisions. If this not considered satisfactory answer, Emb requested consult further with Dept.

With respect mechanics re concluding understanding on above basis, Dept of opinion this should be as informal as possible, optimum being agreed minutes or memo of conversation. As secondary preference, Dept has no objection exchange of letters provided terms such as "agreement" or "arrangement" avoided.

MARSHALL

¹⁵ Not printed.¹⁶ Signed at Nanking, November 4, 1946, Department of State Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

893.6359/7-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 26, 1948—6 p. m.

[Received 10 p. m.]

1365. We discussed July 23 with Wong Wen-hao, President Executive Yuan, question of Sino-American collaboration in making survey of Chinese deposits of radioactive minerals. Discussion based primarily upon instructions contained Deptels 783, May 26 and 859, June 9.

Wong pointed out that previous documents on this subject exchanged between him and Embassy were in confidential files of National Resources Commission and that he intended within few days call meeting to be attended by himself, Sun Yueh-chi, present chairman of NRC, and Dr. C. Y. Hsieh, Director Mineral Exploration Bureau of NRC, for purpose of drawing up counterproposals to proposed agreement prepared by Embassy accordance Deptel 437, March 24. Wong said specifically that question of US assistance in matter of setting up atomic research laboratory would be discussed. As he dwelt on this point at some length, we quoted statement from Deptel 783 that Embassy authorized include in agreement statement to effect US would consider appropriate future assistance to be extended Chinese Government re laboratory and training Chinese physicists in US on basis factual results obtained as result of joint survey.

Wong, who stated he still considered himself Chinese official primarily responsible to Generalissimo on all matters relating to development Chinese atomic energy program, including proposed Sino-American joint survey, expressed view that under our proposals China would be giving United States substantial exclusive rights and that some *quid pro quo* obviously called for on our part.

He said he had been thinking of having all atomic energy research work in China placed in one institution, possibly to be headed by Chien San-chang who received training under Madame Curie Joliot in France. Wong expressed view minimum of about US \$250,000 would be needed initially; that he did not expect US Government supply all or substantial amount this money; but that he hoped subject to Public Law 585, 79th Congress, "an act for the development and control of atomic energy", it would be possible for US Government permit exportation to China of necessary equipment for research. He stressed desirability have concrete provision for laboratory work in agreement as being necessary keep other countries out of that field. He again referred to Swiss interest and added that French also desirous collaborating with Chinese physicists.

Questions registration UN and form of agreement raised. Wong expressed view registration with UN undesirable and that he still preferred exchange letters and agreeable not use terms such as agreement or arrangement.

Embassy will expect follow-up with Wong and report near future.

STUART

893.6359/S-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 9, 1948—4 p. m.

[Received August 9—6:38 a. m.]

1462. Reference Embtel 1365, July 26 and Embdes 321, July 27¹⁷ concerning renewal discussions with Wong Wen-hao on accord providing for Sino-US survey of Chinese deposits of uranium, thorium and allied minerals.

Meeting called by Wong at his home August 7 attended by himself, Embassy officer and two Chinese officials mentioned paragraph 2 reference telegram. In discussion, which lasted for about one hour, Wong raised following two points for consideration Department and AEC: (1) Chinese Government still desires to have included in accord understanding re laboratory equipment to be used primarily for testing minerals, et cetera, and not for atomic energy research in broad sense; (2) Chinese Government hopes US Government itself will purchase substantial amounts monazite from China.

Re (1), Wong said he would find it extremely difficult if not impossible to obtain Generalissimo's approval of accord without something tangible being received for China; he added that he would also be subject to attack by Chinese physicists and other scientists who desire have beginning made in China of work in atomic energy field. Stated purpose of laboratory would be to test ores here quickly rather than to have them sent to US and also to conduct certain amount of experimental work of non-elaborate nature. Wong emphasized primary purpose of laboratory would be testing materials.

Wong expressed hope some American scientists could be stationed in laboratory and that exchange of Sino-American scientists interested in this field might be arranged. Regarding original suggestion that Chinese scientists might receive training in US, Wong said "we would be very glad if that could be done".

Re (2), Wong said he hoped proposed accord would have "practical results" for China; that US Government purchase of monazite which analysis cited Department unnumbered air mail instruction

¹⁷ Latter not printed.

dated June 8,¹⁸ indicated to be of relatively high quality, would provide Chinese Government with foreign exchange which could be used (a) to purchase all or major part of laboratory equipment and (b) provide fund in stable currency with which to meet Chinese Government's obligations under proposed accord. Wong emphasized need for hedge against rampant inflation, pointing out that National Resources Commission was finding it extremely difficult to budget its regular expenditures in any reasonable manner, a problem which would be more acute with such extra-curricular activity as proposed survey.

According Dr. Hsieh, now available 500 to 600 tons monazite for immediate shipment, this amount capable being increased to 1,000 tons and with total reserves estimated 60,000 tons. By means magnetic separator which now in Kwangsi at or near deposits, possible concentrate monazite up to 90 percent purity. Wong said that price of US \$100 per ton delivered New York, mentioned Department's instruction of June 8, appeared to be much too low especially in view recent action taken by Governments of Brazil and India to prohibit further exportation of monazite which action assertedly has caused world price to rise to between US \$150 and \$160 per ton. Hsieh expressed hope US Government might be willing pay US \$200 per ton preferably f. o. b. Chinese port. Even at that figure, NRC chairman Sun pointed out, business would be losing proposition.

Embassy inclined recommend careful consideration be given to Wong's two points as means conclude negotiations on this matter. Questions that need to be answered obviously included: (1) Possible US policy factors re export of equipment and cost for equipment of laboratory of type envisaged by Wong; (2) possible desirability US Government purchasing certain amounts of Chinese monazite to permit Chinese Government to buy laboratory equipment and to provide hedge in US currency for meeting expenses involved in proposed survey. Apparent, of course, that should US Government buy monazite at price considerably higher than price ruling New York market, that would constitute subsidy payment of which may eventually be considered justified on basis potential value results obtainable from survey. We consider price of US \$200 per ton subject to negotiations.

We would appreciate receiving Department's instructions as to response to be made to Wong.

STUART

¹⁸ Not printed.

S93.6359/8-948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 17, 1948—6 p. m.

1329. Ref Embtel 1462, Aug 9, and previous.

1. Dept and AEC have given careful consideration to points raised by Wong. In view impracticability incorporating point 2 in agreement because of reasons outlined below, Emb requested continue discussions with Wong looking toward acceptable compromise on point 1 which would provide required "face" to achieve conclusion "agreement".

2. On assumption monazite available for shipment is similar to material, analysis of which reported in Dept's instruction of June 8,¹⁹ it appears that grade not suitable for purchase by Munitions Board for stockpile. AEC itself not buyer of monazite. Also questionable whether US industry interested in purchasing concentrates of only 90% purity, particularly since rare earth plus thoria content of cleaned concentrates indicated as only 62% against 65% minima content desired. Should industry be interested it is likely that offering price for such concentrates would be under \$100 rather than over. It should be pointed out to Chinese that paragraph 8, our proposed draft (Deptel 1437 [437], March 24) provides medium for eventual conclusion long term purchase arrangements for monazite of suitable grade and that, in meantime, US suggests sale of available quantities to be subject to commercial negotiations with US firms.

3. In any event, it appears that dollars cannot be acquired immediately through monazite sales, and that Chinese not in position assume obligation for laboratory research equipment through internal financing. Dept requests Emb obtain Chinese reaction to alternative whereby US would furnish without charge equipment required for analysis of mineral samples in China for 2-year period and would agree to leave this equipment there after completion project. US would of course insist that provision be made for inclusion American analysts in laboratory during work on project.

4. With reference Wong's original suggestion for training Chinese scientists in US, Dept prefers this question be considered independently. If he again raises matter, Emb should state that regular mechanism for exchange of students exists and that Dept would be glad to facilitate assignment of qualified students to private US universities depending on merits of individual cases.

5. With reference last paragraph Embdes 321, July 27,¹⁹ Keiser (now employed by Geological Survey) has requested appropriate offices in Interior to expedite delivery material desired by Hsieh.

MARSHALL

¹⁹ Not printed.

893.6359/10-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1948—1 p. m.

[Received October 2—6:41 a. m.]

1818. Substance first three paragraphs Deptel 1329, September 17 given Wong October 2. While some regret expressed United States Government lack interest purchase monazite and low price which American commercial interests would probably offer, Wong definitely pleased with offer contained paragraph 3 whereby United States Government would furnish without charge laboratory equipment for analyzing samples during 2-year period of "agreement" and would leave that equipment after completion project.

Wong stated he would discuss matter with Generalissimo upon latter's return to Nanking. He indicated he would present draft of "agreement" to Generalissimo, presumably including provision for receipt of laboratory equipment from United States, and gave impression Generalissimo would approve. He also indicated that our offer on laboratory equipment had practically served to bring negotiations near conclusion.

Wong did not bring up question training Chinese scientists in United States and we did not think advisable to do so, especially in view paragraph 4 reference telegram which provides for assignment qualified Chinese students to private American universities rather than Chinese scientists to United States Government and other highly specialized laboratories.

Re Embtel 1668, September 13,²¹ Wong said he had discussed matter with General Ho Ying-chin, National Defense Minister, who quoted as stating that two organizations in his Ministry carrying on some work in atomic energy field, one being in Ordnance Department, the second in special scientific branch. Wong stated Ho would raise no objection should Department and Atomic Energy Commission refuse grant export permit for materials mentioned Department's airgram 150, August 6.²¹ Wong also reiterated his stand to same effect.

As final understanding with Wong now appears possible, we will not conclude understanding pending final instructions from Department, according paragraph 3 Deptel 783, May 26.

STUART

²¹ Not printed.

893.6359/10-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 2, 1948—noon.

1390. Ref last para urtel 1818, Oct 2, you are authorized to conclude understanding on basis Deptel 859, June 9, which is finalized position of Dept with reference para 3, Deptel 783.²²

LOVETT

893.6359/11-548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 5, 1948—11 a. m.

[Received November 5—1:56 a. m.]

2099. Department will appreciate that developments since Embtel 1818, October 2 sent have been of such critical nature as to prevent Premier's taking up matter with Generalissimo (reDeptel 1390, October 2).

Premier November 4 informed us that matter would have to be set aside for time being for reasons altogether obvious, including his efforts to resign.

STUART

893.6359/11-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 26, 1948—noon.

[Received November 26—1:53 a. m.]

2327. Re proposed Sino-American survey for Chinese deposits of uranium and allied minerals, we November 23 suggested to Dr. Wong Wen-hao desirability of preventing papers thereon in Chinese hands falling into "unauthorized" hands. Wong indicated he appreciated our position and said he would take appropriate steps.

November 26 Wu Chao-hung, Vice Chairman of National Resources Commission, informed us he had been instructed by Wong personally to be responsible for papers and that he was taking them in few days to Taiwan.

STUART

²² May 26, p. 745.

NEGOTIATIONS CONCERNING UNITED STATES SENATE
RESERVATION TO TREATY OF FRIENDSHIP, COM-
MERCE, AND NAVIGATION SIGNED NOVEMBER 4, 1946,
AND REGARDING EXCHANGE OF INTERPRETATIVE
NOTES

711.932/5-2748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 27, 1948—7 p. m.

796. Senate For[eign] Rel[at]ions] Comm[ittee] reporting out FCN treaty¹ May 25 attached reservation that U. S. does not accept para 5 (c) of Protocol regarding translations and that U. S. interests in this respect will continue be governed by provisions 1903 Treaty.²

Committee received many protests from authors and publishers against Protocol 5 (c), and apparently considered reservation necessary as public relations matter to make clear treaty does not introduce new principle or indicate backward step with respect protection authors' rights. Dept feels reservation involves no significant change substance, since 1903 Treaty does not appear afford any substantial protection against translations.

Senate action on treaty expected few days.

LOVETT

711.932/6-348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 3, 1948—6 p. m.

836. Senate yesterday approved treaty of friendship, commerce and navigation with reservation on copyright as described in Deptel 796, May 27. Detailed instructions as to handling reservation and generally with regard exchange of ratifications to follow.

MARSHALL

¹ Treaty of friendship, commerce, and navigation, signed at Nanking, November 4, 1946. For text, see Department of State Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

² Signed at Shanghai, October 8, 1903, *Foreign Relations*, 1903, p. 91.

711.932/6-2548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 25, 1948—7 p. m.

926. 1. Following is text Senate resolution June 2, approving FCN treaty:

“Resolved (two-thirds of the Senators present concurring therein), That the Senate advise and consent to the ratification of Executive J, Eightieth Congress, first session, the Treaty of Friendship, Commerce, and Navigation between the United States of America and the Republic of China, together with a protocol thereto, signed at Nanking on November 4, 1946, subject to the following reservation:

The Government of the United States of America does not accept section 5 (c) of the protocol relating to protection against translations of literary and artistic works, and with the understanding that United States interests in this respect will be interpreted in accordance with the provisions of the treaty as to commercial relations signed at Shanghai, October 8, 1903, until further negotiations and agreement concerning translations are forthcoming. The United States stands ready to enter into immediate negotiations with China for further improvement in copyright relationships with particular emphasis upon the desire of the United States to afford protection of translations. The Senate is of the opinion that the protection of the author of literary and artistic property in the exclusive right to translate or authorize the translation of his works is of importance as a matter of justice to the author and is of equal importance as a means for assuring a true translation and faithful presentation for peoples who must receive it in a language other than the original. Under present-day conditions, such protection is essential to promote effective diffusion of literary and artistic works and to encourage responsible industries engaged in the production of such works within a country.

The Senate further understands that the treaty does not obligate either party to extend most-favored-nation treatment with respect to copyright.”

You are requested to seek soonest interview appropriate official Fonoff and inform him Senate has approved treaty in accordance US constitutional procedure, that US will be prepared early date exchange ratifications, and that Dept wishes be informed soonest whether Chinese Govt prepared exchange ratifications with reservation. You should hand him copy Senate resolution quoted above and in referring to reservation explain that it is a substitution, for Protocol 5 (c), of a provision of comparable substance from a former treaty. It is Dept's hope that, in view of this fact, FonOff, with concurrences Exec. Yuan and Gimo,³ will regard acceptance reservation as matter within prov-

³ Chiang Kai-shek, President of the National Government of the Republic of China.

ince Exec. Branch. You should, therefore, not bring up subject of referring reservation to Legislative Yuan but should present subject in such a way as to avoid, if possible, that procedure. Dept desires this approach be used because in view present anti-American and anti-Chinese Govt agitation Dept doubts whether assent present Legislative Yuan to reservation can be obtained and fears whole question of treaty would be raised again if reservation presented that body for assent. Emb will recall that immediately after signature treaty Fonmin ⁴ hastened obtain ratification before election and convening of new Legislative Yuan because he gravely doubted new body would give approval. Ratification was obtained only 5 days after signature of treaty, shortly before dissolution Legislative Yuan. Written record of Chinese acceptance reservation may properly be limited to appropriate mention in protocol of exchange of ratifications.

In discussing reservation you should state that during consideration treaty Senate For. Rel. Comm. and individual Senators received many protests from authors and publishers against Protocol 5 (c), condemning Dept for recognizing in international agreement what senders considered highly objectionable principle of non-protection against translation, thus establishing bad precedent and taking backward step as to development international copyright relations. If questioned as to intent of reservation, you may utilize following quotations from Report of For. Rel. Comm.⁵

"As compared with our rights under treaty of 1903, present treaty would afford considerably improved protection for Americans with respect to copyright generally; with respect to translations, it would not appreciably change situation . . . The Committee had serious objections to the acceptance by the US, in a new and modern treaty, of section 5 (c) of the protocol, which continues the principle of excluding translations from protection. The Committee therefore recommends that Senate do not accept this section, but maintain *status quo* under earlier treaty of 1903. The relevant provisions of the treaty of 1903 are admittedly inadequate in this respect, but it is felt that further progress can be made and equitable trade practices developed to mutual satisfaction in later negotiations."

For your information purpose of Senate in adding final sentence to reservation not clear, but since treaty contains no MFN ⁶ provision relating to copyright, the sentence should cause no difficulty.

2. Dept also wishes obtain Chinese agreement to interpretative statement to be included in exchange notes at time exchange treaty ratifications to following effect:

⁴ Wang Shih-chieh, Chinese Minister for Foreign Affairs.

⁵ Senate Foreign Relations Committee, Executive Report No. 8. *Treaty of Friendship, Commerce, and Navigation With China*, 80th Cong., 2d sess.

⁶ Most-favored-nation.

"The provisions of the present Treaty shall not preclude action by either party which is required or specifically permitted by the General Agreement on Tariffs and Trade⁷ or by Chap IV of the Havana Charter for an International Trade Organization⁸ during such time as such party is a contracting party to the General Agreement or is a Member of the ITO."

Paragraph 2 (c) Art. XXVI originally included in treaty for purpose of permitting certain action pursuant to multilateral commercial arrangements then in planning stage. Since GATT now in effect and text ITO Charter now before Govts for ratification Dept considers desirable state more specifically that treaty provisions not intended interfere with obligations or privileges of parties to GATT or ITO Charter. Italy will be asked agree similar exchange notes at time exchange ratifications pending treaty.⁹

3. Another problem Dept desires deal with in exchange notes at time exchange treaty ratifications concerns Trust Territory Pacific Islands. Trusteeship Agreement concluded July 18, 1947 between US and UN Security Council,¹⁰ *inter alia* designates this Territory as a strategic area and US as administering authority with power to close parts or all of Territory for security reasons. Furthermore, under Art. 8, paragraph 1 of Trusteeship Agreement, members of UN, including China, are granted, subject to security considerations and welfare of inhabitants, MFN treatment in Territory. For these reasons and in view of special responsibilities of US toward inhabitants of Territory, Dept desires obtain adherence Chinese Govt to agreement excepting Trust Territory from territorial coverage of treaty and also excepting advantages which US might grant that Territory from application MFN provisions of treaty. Such an agreement accords with opening phrase Art XXVII of treaty which contemplates possible future agreements limiting territorial coverage. As far as known, Chinese interests would not be affected by proposed exception of Territory from treaty obligations. Effect proposed exchange notes would be same as if words "and the Trust Territory of the Pacific Islands" were added after words "Panama Canal Zone" at end of Art XXVII and in first sentence Art XXVI (4) of treaty. Exception in above sense included in treaty with Italy, and Dept plans include it in future FCN treaties. Referring to phrase in Art 8 (1) Trusteeship Agreement, which would permit nationals and companies of administering authority to receive more favorable treatment than

⁷ Signed at Geneva, October 30, 1947, Treaties and Other International Acts Series No. 1700, or 61 Stat. pts. 5 and 6.

⁸ Department of State, *Havana Charter for an International Trade Organization*, March 24, 1948 (Washington, Government Printing Office, 1948), p. 23.

⁹ Signed at Rome, February 2, 1948; Treaties and Other International Acts Series No. 1965, or 63 Stat. (pt. 2) 2255.

¹⁰ Treaties and Other International Acts Series No. 1665, or 61 Stat. (pt. 3) 3301.

that accorded nationals and companies other United Nations, US representative in Security Council stated: “. . .¹² the US Govt has no intention, through this clause or any other clause, of taking advantage for its own benefit, and to the detriment of the welfare of the inhabitants, of the meager and almost nonexistent resources and commercial opportunities that exist in the scattered and barren islands. . . .”¹²

4. Dept hopes Emb can obtain prompt agreement Chinese Govt to above proposals in order that treaty may be put into effect without delay. Upon receipt of telegraphic reply, which should be expedited, Dept will forward drafts necessary notes.

MARSHALL

711.932/7-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 14, 1948—6 p. m.

[Received July 14—8:54 a. m.]

1292. ReDeptel 926, July [June] 25. Following study Embassy notes and *aides-mémoire* re exchange ratifications and notes on FCN treaty, head Treaty Department, Foreign Office volunteered opinion on July 14 that Senate reservation would have to be referred to Legislative Yuan and that permission exchange of notes re GATT, ITO and Trust Territory of Pacific Islands would have to be obtained from Legislative Yuan because of substantive changes involved. Executive Yuan plans submit only changes involved to Legislative Yuan on basis that old Yuan already ratified all other provisions which are to come into force unchanged. Foreign Office only now consulting other agencies of Executive Yuan re exchanges of notes and is encountering difficulties due complex nature GATT.

Foreign Office urgently requests soonest analytical interpretive cross reference of related provisions FCN Treaty, GATT and ITO to expedite preparation memoranda for use other agencies and for preparation justifications for submission Legislative Yuan. Embassy supports his request in view extreme shortage of time caused by possible adjournment Legislative Yuan July 21 and suggests that careful analysis indicating possible advantages both to US and China might prove extremely helpful in limiting Yuan discussion and obtaining prompt approval prior close of this session rather than sometime next fall or winter.

Individual members Legislative Yuan consulted by Embassy not in agreement on likelihood another extension present session.

¹² Omission indicated in the original telegram.

Foreign Office requests soonest full texts notes to be exchanged in order expedite obtaining concurrence other agencies prior submission Legislative Yuan.

Foreign Office envisages possible extended discussion GATT, Trust territories and ITO since they limit applicability of treaty or may work to advantage of US rather than China. However, feels Senate reservation not likely draw much fire since merely leaves matter to further negotiation.

Foreign Office interested learning whether acceptance by US Government of reservations by other governments subject to prior approval of Senate.

Foreign Office held (1) China has indicated provisional acceptance GATT and final acceptance not given until UN notified and (2) should FCN treaty come into force after GATT, provisions former will take precedence over latter unless notes exchanged.

STUART

711.932/7-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1948—4 p. m.

1036. Urtel 1292, July 14. Texts notes to be exchanged on ITO and GATT follow.

US note. "I have the honor to refer to Art XV and paragraph 3 (c) of Art XXVI of the Treaty of FCN between the USA and the Republic of China signed at Nanking on November 4, 1946, and to state that it is the understanding of the Govt of the USA that the provisions of the aforesaid Treaty do not preclude action by either of the parties thereto which is required or specifically permitted by the General Agreement on Tariffs and Trade or by Chapter IV of the Havana Charter for an International Trade Organization, during such time as the party applying such measures is a contracting party to the General Agreement or is a member of the International Trade Organization.

"I should be glad if your Excellency would confirm this understanding on behalf of the Govt of the Republic of China."

Chinese note. "I have the honor to acknowledge the receipt of your note of today's date with respect to Art XV and paragraph 3 (c) of Art XXVI of the Treaty of FCN between the Republic of China and the USA signed at Nanking on Nov 4, 1946 and to confirm that it is the understanding of the Govt of the Republic of China that . . ." ¹³ (Repeat phraseology opening paragraph above from "the provisions" to end paragraph).

MARSHALL

¹³ Omission indicated in the original.

711.932/7-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1948—4 p. m.

1037. Urtel 1292, July 14. Texts of notes to be exchanged on Trust Territory follow.

"I have the honor to refer to Art XXVII of the Treaty of FCN between the USA and the Republic of China signed at Nanking on Nov 4, 1946 and to the recent conversations between representatives of our two Govts regarding the applicability of the provisions of the aforesaid Treaty to the Trust Territory of the Pacific Islands.

"In view of the special relationship established with respect to the Trust Territory of the Pacific Islands by the Trusteeship Agreement approved by the Security Council of the UN on Apr 2, 1947, the Govt of the USA proposes that: (1) the Treaty of FCN between the USA and the Republic of China signed at Nanking on Nov 4, 1946 shall not apply to the Trust Territory of the Pacific Islands except to the extent that the President of the USA shall by proclamation extend the provisions of the Treaty to such Trust Territory; (2) the provisions of the Treaty according treatment no less favorable than the treatment accorded to any third country shall not apply to advantages now accorded or which may hereafter be accorded by the USA or its territories and possessions, irrespective of any change in their political status, to the Trust Territory of the Pacific Islands.

"If the foregoing proposals are acceptable to the Govt of the Republic of China, the Govt of the USA will consider this note and your reply as placing on record the understanding of the two Govts in this matter, with effect from the date of entry into force of the aforesaid Treaty."

Chinese note. "I have the honor to acknowledge the receipt of your note of today's date which contains the following proposals on the part of the Govt of the USA with respect to the applicability to the Trust Territory of the Pacific Islands of the Treaty of FCN between the Republic of China and the USA signed at Nanking on Nov 4, 1946: (Repeat numbered statements in preceding draft note.)

"I have the honor to inform you that the Govt of the Republic of China accepts the foregoing proposals and considers your note together with this reply as placing on record the understanding of our two Govts in this matter, with effect from the date of entry into force of the aforesaid treaty."

MARSHALL

711.932/7-1448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1948—4 p. m.

1039. Urtel 1292, July 14. Impossible prepare thorough comparative analysis provisions FCN treaty, GATT, and ITO Charter for use Chinese Govt before adjournment Legislative Yuan. Treaty pro-

visions relating exchange goods represent generally principles US policy Dept endeavored incorporate in GATT and ITO Charter, but to obtain general acceptance multilateral agreements it was necessary in many instances include greater detail and in some cases depart from strictness of treaty rules. For example, multilaterals permit utilization quantitative restrictions in discriminatory manner to protect balance of payments, whereas treaty precludes their use in this manner, and multilaterals contain more flexible provisions than treaty relating integration economies two or more countries by means customs unions and free trade areas.

Generally, GATT and Charter (1) spell out in greater detail by means supporting, extending, or qualifying provisions the general principles included in the treaty; (2) provide for controlling, coordinating, or consultative action in certain cases by the ITO or parties to GATT acting jointly; (3) deal with certain matters that are dealt with only partially, inferentially, or not at all in treaty, e. g., cinematographic films, export subsidies, customs valuation, marks of origin, etc.; (4) require certain action not required in treaty, e. g., negotiations between members to reduce tariffs (as were participated in by both China and US at Geneva), and abolition of quantitative restrictions except in exceptional circumstances.

Dept in proposing exchange notes relating GATT and ITO, seeks for US no advantages except general ones that will accrue to both countries from having multilaterals in unimpeded operation. It is thought that the unqualified treaty rules would be preferable in some respects insofar as specific US interests are concerned. The more flexible provisions in GATT and Charter regarding quantitative restrictions would presumably be more advantageous to China than the stricter treaty provisions. Purpose of proposed understanding is merely to remove any possibility treaty interfering with operation of multilaterals. This objective is wholly in accord with commitment of China and US in Arts XV and XXVI (3c) of treaty. Exchange notes would not commit either party to treaty to become or remain party to GATT or member ITO.

In reply to inquiry referred to in penultimate paragraph Embtel 1292, it may be stated that general practice of US Govt is not to agree to substantive reservation to a treaty on the part of some other nation without first obtaining consent of Senate. Understandings reached pursuant to specific provisions of a treaty, such as that proposed with regard to Trust Territory of Pacific Islands, or an understanding such as that relating to GATT and ITO are not considered reservations and consequently are not considered as requiring Senate action.

MARSHALL

711.932/7-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 20, 1948—6 p. m.
[Received July 20—7:21 a. m.]

1320. ReDeptel 926, June 25. Treaty Section Foreign Office states impossible obtain Legislative Yuan approval exchange of ratifications if questions of (1) Senate reservation, (2) exchange of notes GATT and ITO and (3) exchange of notes Trust Territory of Pacific Islands, all must be settled prior exchange of ratifications. Foreign Office explains impossible obtain concurrence concerned government agencies and prepare justifications for submission Executive Yuan regarding exchange of notes GATT, ITO, trust territory because time limitation and expected adjournment Legislative Yuan next week. Implication was that it might perhaps be possible obtain exchange of ratifications prior adjournment present session of Yuan provided Yuan approval only Senate reservation involved although Foreign Office official admitted even this questionable due time factor. Foreign Office reiterated request thorough comparative analysis provisions FCN treaty, GATT and ITO charter for use preparation persuasive memos prior fall session for enlightenment Legislative Yuan and Embassy concurs this request for reasons outlined Embtel 1292, July 14.

STUART

711.932/7-2048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 20, 1948—7 p. m.

1053. Embtel 1320, July 20, Emb requested urge Chinese Govt seek immediately legislative approval Senate reservation FCN treaty. Dept exploring possible means for obtaining, either before or after exchange ratifications, objectives sought in proposed exchanges notes. Views Emb requested.

MARSHALL

711.932/7-2248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 22, 1948—6 p. m.
[Received July 22—8:04 a. m.]

1346. Re unnumbered Deptel July 20, 7 p. m.¹⁴ received Nanking July 21, 6 p. m. in reply Embtel 1320. Director Treaty Department

¹⁴ This telegram, printed *supra*, was actually numbered 1053.

FonOff stated evening July 21 he will urge FonOff prepare morning 22nd a recommendation that Senate reservation be submitted by Executive Yuan to Legislative Yuan on morning of July 23 (last day of present session) for Legislative Yuan approval. Now uncertain whether latter will be willing consider Senate reservation in lieu of other pressing legislation.

Proposed exchanges of notes in any event will have to await Legislative Yuan approval in fall session. FonOff expects may encounter resistance in both Government and Legislative Yuan due possible loss of advantage by China and by misunderstanding and ignorance in Legislative Yuan. Hence FonOff most anxious prepare case for acceptance as thoroughly and persuasively as possible. FonOff believes objectives can be attained by an exchange of notes separated from ratification procedure.

Embassy believes FonOff willing seek approval GATT and ITO but expects less firm support of note exchange re Trust Territory. FonOff refuses now gauge probable Governmental and Legislative Yuan reaction on foregoing but expects encounter no resistance re Senate reservation.

STUART

711.932/7-2248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 22, 1948—6 p. m.

[Received July 22—8:04 a. m.]

1347. ReEmbtel 1346, July 22. Foreign Minister has decided Senate reservation cannot be submitted present session Legislative Yuan because Executive Yuan approval, which must be obtained at special meeting, cannot be gotten prior adjournment Legislative Yuan tomorrow.

STUART

711.932/7-2848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 28, 1948—3 p. m.

[Received July 28—11:19 a. m.]

1380. ReDeptel 1053, July 20. As stated Embtel 1347, July 22, Senate reservation FCN treaty was not presented to Legislative Yuan prior to adjournment this session. In retrospect Embassy considers bargaining power for proposed exchange of notes Trust Territory, GATT and ITO, especially the first mentioned, will be strengthened considerably if Senate reservation and exchanges notes treated as

unit and identified with exchange of ratifications. Embassy senses Government reluctance consider further "limitations". Dept concurrence this approach desired.

Although Legislative Yuan approval only Senate reservation this session might have been obtained if Foreign Office approached from beginning on this basis, Embassy feels no regrets in view paragraph 1 above and early opening of next session on September 1.

Embassy cannot stress too strongly desirability preparation careful analysis requested Embtels 1292, July 14, and 1346, July 22, to facilitate acceptance proposed exchange of notes. Since next session Legislative Yuan scheduled open within 5 weeks, Embassy suggests analysis be available Nanking by early August if possible.

Please keep Embassy informed re status Italian FCN treaty and exchange of similar notes if latter to be negotiated August or September.

STUART

711.932/7-2348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 25, 1948—7 p. m.

1230. Urtel 1380 July 28; Deptel 1039 July 16. Dept concurs handling Senate reservation and two exchanges notes (Deptels 1036 and 1037 July 16, and 926 June 25) as unit and identifying same with exchange ratifications, at Emb's discretion. Suggested protocol of exchange ratifications to this effect will follow. Dept desires every reasonable effort be made to secure Chinese acceptance of the ITO-GATT and Trust Territory understandings in this way. If, however, after discussions with Chinese officials prior submission Legislative Yuan, Emb feels strongly that our insistence on inclusion understandings might jeopardize treaty ratification at this time, Dept should be promptly informed.

Dept had not expected Chinese would make difficulties re Trust Territory exception, already included in text Ital treaty. Our obligations in trust area defined by agreement with UN, on whose behalf US acts as administering authority. Conversely, Chinese interests there protected by same agreement; and US can hardly be expected, through bilateral treaty, to modify this multilaterally-established regime. In any case, economic importance of territories under our strategic trusteeship not sufficient to warrant their becoming issue in such treaty.

Dept trusts Chinese will appreciate that our desire for statement concerning ITO and GATT is by way of clarifying mutual intent

that treaty is not to be interpreted or applied in such way as to hamper multilateral regime established by these two instruments, in formulation and development of which China as well as US fully participated. It is worth repeating that we are not seeking here to commit Chinese either to join or not join projected ITO. Wording proposed in Deptel 1036 primarily calculated assure that the rather rigid rules of nondiscrimination set forth in treaty (principally those set forth in Art XVI, paras 1, 3 and 4) may be relaxed to extent and in manner provided in GATT and ITO.

Dept rather believes that understanding to this effect may be even more necessary for China than for US. Perhaps most important relaxation is in connection with balance of payments difficulties; and it is China, rather than US, which is in situation of possibly needing to avail itself of the special privileges set forth in GATT and ITO Charter (Art XIV of former, Art 23 of latter). Emb may have noted that Dept had to make a special arrangement on this subject with Italians, in as much as at time of negotiating Ital FCN treaty (Autumn 1947), Italy was not yet participating in either GATT or ITO. (See Additional Protocol to Ital treaty, paras 1, 2 and 4). By proposing to Chinese a statement re ITO and GATT, US is *inter alia* giving assurance that we do not intend treat Chinese less favorably in this regard.

Other specific provisions of ITO and GATT to which proposed statement is relevant include following:

Art 24, para 8(b) of Charter, and Art XV, para 9(b) of GATT, which is a residual assurance of right to apply import and export restrictions complementary to exchange restrictions such as are permitted under IMF reservation of treaty (Art XXVI, para 1(e)).

Art 44 of Charter makes more ample provision for development of customs unions (and free-trade areas) than does Art XXVI, para 3(b) of the treaty. Compare Art XXIV of GATT.

General exceptions in Art 45 of Charter, and in GATT, are more amply designed to bridge dislocation of post-war period than those in Art XXVI of treaty. See especially in para 1 of former, items under ix and x of (a), and those under (b). Reference to GATT will also pick up necessary fissionable materials reservation (Art XXI, para b(i), which in Ital treaty is spelled out (see Art XXIV, para 1(c) of Ital treaty).

It is true that Charter contains rules which are not in treaty, just as treaty contains rules which are not in Charter, and that, moreover, where same subject-matter is covered in both instruments, Charter usually deals with it in much more elaborate and detailed fashion. But this does not mean conflict between two, nor does it mean that both instruments cannot be fully effective according to their own

terms. Dept, therefore, feels no useful purpose would be served, in so far as ratification of treaty is concerned, in attempting supply Chinese with exhaustive paragraph-by-paragraph comparative analysis.

Ital Parliament not expected act on US-Italy FCN treaty until about Oct 1. Foreign Office states it has no objection exchange notes on ITO and GATT similar to that proposed to China, and that it will probably not be necessary submit matter to Parliament.

MARSHALL

711.932/8-3048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 30, 1948—6 p. m.

1246. Suggested draft of protocol of exchange of ratifications (Deptel 1230, Aug 25, 1948) follows:

"The undersigned, J. Leighton Stuart, Ambassador Extraordinary and Plenipotentiary of the United States of America to the Republic of China, and, Minister of Foreign Affairs of the Republic of China, duly authorized by their respective Governments, met this day for the purpose of exchanging the instruments of ratification of their respective Governments of the treaty of friendship, commerce, and navigation between the United States of America and the Republic of China signed at Nanking on November 4, 1946.

"The Ambassador of the United States of America stated that the treaty is ratified on behalf of the United States of America subject to the reservation and understanding set forth in the Resolution of June 2, 1948 of the Senate of the United States of America advising and consenting to ratification, a copy of which Resolution was communicated to the Minister of Foreign Affairs of the Republic of China by the Ambassador of the United States of America by his note of, 1948.

"The Minister of Foreign Affairs of the Republic of China stated that he was authorized by his Government to declare that the Republic of China accepted the aforesaid reservation and understanding.

"The undersigned, duly authorized by their respective Governments, placed on record also the following understandings which have been agreed upon by the two Governments with respect to the aforesaid treaty:

1. The provisions of the treaty of friendship, commerce, and navigation signed at Nanking on November 4, 1946 do not preclude action by either of the parties thereto which is required or specifically permitted by the General Agreement on Tariffs and Trade or by Chapter IV of the Havana Charter for an International Trade Organization during such time as the party applying such measures is a contracting party to the General Agreement or is a Member of the International Trade Organization.

2. In view of the special relationship established between the United States of America and the Trust Territory of the Pacific Islands by the Trusteeship Agreement approved by the Security

Council of the United Nations on April 2, 1947, and by the Government of the United States of America on July 18, 1947, the treaty of friendship, commerce, and navigation signed at Nanking on November 4, 1946 shall not apply to the Trust Territory of the Pacific Islands except to the extent that the President of the United States of America shall by proclamation extend provisions of the treaty to such Trust Territory; and the provisions of the treaty according treatment no less favorable than the treatment accorded to any third country shall not apply to advantages now accorded or which may hereafter be accorded by the United States of America or its territories and possessions, irrespective of their future political status, to the Trust Territory of the Pacific Islands.

"The exchange of instruments of ratification thereupon took place in the usual manner, the respective instruments having been carefully compared and found to be in due form.

"IN WITNESS WHEREOF, the respective Plenipotentiaries have signed the present Protocol of Exchange and have affixed thereto their seals.

DONE in duplicate, in the English and Chinese languages, at Nanking this day of, 1948.

For the Government of the United States of America :

For the Government of the Republic of China."

Emb may communicate suggested draft to FonOff at its discretion, and in accordance instructions contained Deptel 1230.

MARSHALL

711.932/9-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 14, 1948—11 a. m.

[Received 1:24 p. m.]

1674. ReDeptels 1246, August 30 and 1230, August 25. Foreign Office finally decided submit only question of ratification to Legislative Yuan in line with general policy of avoiding reference Legislative Yuan whenever possible and position exchange of notes within province of Foreign Office as matter of interpretation rather than actual substantive change treaty provisions. Foreign Office refuses predict Legislative Yuan reaction to ratification accepting Senate reservation.

Foreign Office assures no question or problem exists re exchange of notes on GATT, ITO and Trust Territories and suggests that since only question Senate reservation submitted Legislative Yuan the matter is best handled by exchange of notes as originally proposed by Department. Embassy concurs this view.

Hackworth¹⁵ defines instrument of ratification and copy complete

¹⁵ Green H. Hackworth's *Digest of International Law*.

text treaty in both languages signed by President. Does this mean Embassy has to prepare and/or check Chinese text? If so, will appreciate receiving soonest photostatic copy commercial treaty mentioned in Embassy despatch 279, November 18, 1946.¹⁶ Embassy hopes that photostatic copy of treaty was sent to Washington as none can be located here despite fact two copies were made. In this connection Foreign Office feels separate copies text both languages of a treaty need not be exchanged with ratification instrument and that originals in custody US Government and Chinese Government suffice as binding reference. Legislative Yuan will take action on Senate reservation this session which ends December 31. Although Foreign Minister departing for Paris end of this week, officials in Treaty Department state they have authority act on proposals re text exchange of notes and text of protocol of exchange of ratifications (excluding of course changes by unpredictable Legislative Yuan). Suggested amendment protocol following separate telegram.¹⁷

STUART

711.932/9-1448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 14, 1948—11 a. m.

[Received September 14—6:57 a. m.]

1676. ReDeptel 1246, August 30, 6 p. m. Foreign Office informally suggests amendment draft of protocol of exchange of ratifications as follows:

First paragraph as stated refDeptel.

Second paragraph: "The Ambassador of the United States of America stated that the treaty is ratified on behalf of the United States of America subject to the reservation and understanding set forth in the resolution of June 2, 1948, of the Senate of the United States of America, advising and consenting to ratification, a copy of which resolution was communicated to the Minister for Foreign Affairs of the Republic of China by the Ambassador of the United States of America by his note No. 502 of July 8, 1948, to the effect that the provisions contained in paragraph 5 subparagraph (c) of the protocol attached to the aforesaid treaty be deleted and that the words 'article XI being excepted' be added to the closing sentence of article XXIX, paragraph 1, subparagraph (g) of the aforesaid treaty".

Third paragraph as stated refDeptel.

Paragraphs 4, 5 and 6 to be deleted in favor of exchange of notes.

Paragraphs 7, 8 and 9 as stated in refDeptel.

¹⁶ Not printed.

¹⁷ *Infra.*

Inclusion text re ITO, GATT, Trust Territories now unnecessary due Foreign Office acceptance our position and its decision not submit these subjects to Legislative Yuan. Embassy substituting title "Minister for Foreign Affairs" for erroneous title "Minister of Foreign Affairs" throughout protocol.

STUART

711.932/9-1448 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 12, 1948—8 p. m.

1435. Dept accepts FonOff suggestion (Embtel 1674, September 14) for exchanges notes on GATT, ITO, Trust Territory. Notes should conform draft notes transmitted Deptels 1036, 1037, July 16. Dept still prefers have notes exchanged same day ratifications of treaty exchanged. Deletion paras 4, 5, 6, protocol of exchange of ratifications (Embtel 1676, Sep 14) acceptable.

Dept prefers avoid, if possible, amendment para 2, protocol of exchange, along lines FonOff suggestion, as would require in effect Dept interpretation and paraphrase Senate resolution. FonOff amendment (1) does not appear absolutely necessary, since reference to Emb note transmitting copy Senate resolution of FonOff provides explicit identification of document containing US reservation to treaty and formal communication thereof to Chin Govt, (2) contains indirect reference 1903 Treaty which Dept assumed Chin Govt anxious to avoid, (3) is incomplete statement of effects Senate resolution, since fails refer to final para resolution containing understanding on MFN treatment for copyright, which Dept feels must be regarded as integral part resolution, (4) appears state too broadly effect Senate reservation, which limits scope of understanding to protection US interests in respect translations and does not apply to other matters contained Art XI 1903 Treaty.

Dept feels FonOff apparently believes necessary continue Art XI 1903 Treaty in force to give proper effect to Senate reservation. Reservation establishes Art XI as standard by which protection US interests in translations will be interpreted, but agreement between US and China regarding treatment for translations consists of Senate reservation and Chinese acceptance thereof, not Art XI 1903 Treaty. Hence unnecessary continue Art XI in force, or refer specifically thereto in protocol of exchange.

Dept believes should retain para 2 original Dept draft (Deptel 1246, Aug 30). If absolutely necessary matter may be solved by quoting after para 2 original Dept draft full text Senate reservation.

Dept desires have treaty enter into force soonest. In this connection, Emb may, at its discretion, ascertain informally whether FonOff continues to feel, on basis substantive considerations, it should refer reservation to Legislative Yuan.

Incorporation copy full text treaty in instrument ratification usual international practice but not obligatory. Dept has no objection accepting from Chin Govt instrument ratification prepared in accordance FonOff views, omitting copy text, provided instrument meets essential requirement of precise reference to treaty and explicit statement confirming and ratifying treaty. US instrument will contain photostatic text in both languages. Emb need not prepare or check Chinese text.

LOVETT

711.932/10-2148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 21, 1948—1 p. m.

[Received October 21—7:25 a. m.]

1955. Substance first 4 paragraphs Deptel 1435, October 12 made available to Foreign Office Treaty Department officials, who now studying Department recommendations that paragraph 2 Protocol of Exchange of Ratifications be not amended. As Chinese arguments favoring amendment somewhat fuzzy, we have asked them to consult together further and give us opinions in writing. Legislative Yuan Foreign Affairs Committee October 14 held hearing on Treaty ratification including Senate reservation. Meeting attended by Foreign Office Treaty Department officials as well as representatives Ministries of Interior and Education and Academia Sinica. Press reports on meeting indicate agreement reached to accept reservation. Treaty Department officials October 20 stated, however, that committee which had several more discussions on subject, has not yet drawn up its recommendations to be submitted to General Assembly of Legislative Yuan which Yuan in turn will then submit its recommendations to Executive Yuan. Latter will thereupon instruct Foreign Office as to action to be taken.

Reference second last sentence last paragraph Deptel, does Department plan send to Embassy photostatic copies of Treaty in both languages?

STUART

711.932/10-3148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 31, 1948—5 p. m.

[Received October 31—5:08 a. m.]

2046. Legislative Yuan October 26 passed resolution regarding Senate reservation. Translation accurate newspaper text follows in separate telegram. Resolution approved Senate reservation regarding section 5 C of Protocol. It stated that "rights with respect to literary and artistic works referred to in third sentence article IX of Treaty" shall be interpreted according relevant provision Treaty 1903, and authorized Chinese Government to exchange ratifications with the US in accordance with the understanding expressed in the Yuan's resolution. It closed with statement regarding purpose translations and authorized government negotiate copyright agreement in conformity spirit article XI of Treaty 1903. Foreign Office attempting expedite transmittal official text Yuan resolution to Executive Yuan and Foreign Office. Action thereon and decision regarding wording Protocol must await Foreign Minister return scheduled November 2 or 3. As President Chiang signed document of ratification November 11, 1946, Embassy assumes exchange ratification now awaits agreement on wording of Protocol and arrival American instrument.

It is noted that (a) above quoted wording failed to specify translations; (b) resolution inadvertently omitted reference to understanding expressed by Senate regarding MFN treatment; and (c) avoided reference to Senate resolution. Because of omission Legislative Yuan resolution the position of Treaty Department regarding Protocol even more uncertain than at time of Embtel 1955, October 21. Spokesman wonders whether Protocol will have to make reference to (or append texts of) both Legislative Yuan resolution and Senate resolution, and whether further reference must be made to Legislative Yuan to obtain language specifying that rights of translation will be interpreted according to Treaty 1903. He believes in interest of speed Foreign Office should avoid further reference to Yuan and that Foreign Minister can give assurance without reference to Yuan that Senate understanding regarding MFN treatment acceptable Chinese Government. Treaty Department still wishes amend language paragraph 2 (2) of Protocol in view strong views of its director (who accompanied Foreign Minister to Paris) and Foreign Minister's prior consideration thereto. Foreign Office position based on strong rejection by Legislative Yuan of opinion expressed in Senate resolution regarding right of author to protection of translations. Spokesman feels suggested Foreign Office amendment can be revised to read "the provisions of article XI relating to translations being excepted." However,

position contained Deptel 1435, October 12 will be presented to Foreign Minister on his return.

Treaty Department states Foreign Minister will probably prefer to exchange notes regarding GATT, ITO and Trustee Territories within few days after exchange of ratifications so as to avoid publicity thereon and thereby escape almost certain Legislative Yuan protests that all changes in the FCN Treaty had not been referred to it for prior approval.

Embassy feels that amended language suggested informally by Treaty Department would meet Department objection raised point 4 Deptel 1435, October 12. Objection point 3 can be met by Foreign Minister specifying in Protocol that Senate understanding regarding MFN treatment acceptable to Chinese Government. With regard Department's position stated on point 1, main purpose of Foreign Office in seeking amendment seems to be to eliminate direct or indirect reference to portions of Senate resolution which Chinese Government finds objectionable. This, Foreign Office believes, can be done by clarifying reservation and understanding in Protocol, by reference to Legislative Yuan resolution, or by appending Legislative Yuan resolution. Embassy believes an amendment paragraph 2 desirable if amendment has result of avoiding reference to appending Legislative Yuan resolution which both Embassy and Foreign Office find inadequate. Foreign Minister will consider Department view that article XI need not be kept in force[. Embassy] recommends that ITO, GATT, Trustee Territory notes be exchanged as proposed by Foreign Office.

Embassy believes it essential in US interest to reach agreement and expedite exchange of ratification. Chinese Government as now composed, in Embassy opinion, will ratify treaty quickly subject to Senate reservation regarding section 5 (c) of Protocol and Senate understanding that protection of American interests regarding translations to be based on provisions of Treaty of 1903. There is no assurance, however, that any successor government would be similarly disposed and as Department is aware, fall this Government is within range of immediate possibilities. Accordingly Embassy strongly recommends that (a) it be granted by Department maximum discretion in agreement to language for Protocol of exchange of ratification and (b) Department do all possible physically to speed to Embassy instruments of ratification even though agreement not yet reached regarding wording Protocol in order to enable immediate exchange if and when agreement reached.

STUART

711.932/11-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 1, 1948—6 p. m.
[Received November 1—10:05 a. m.]

2054. Reference Embtel 2046, October 31. Last sentence paragraph 3 Embtel 2046, October 31 should read "Foreign Minister will consider Department view that article XI need not be kept in force. Embassy recommends that ITO, GATT, Trust Territory notes be exchanged as proposed by Foreign Office."

In connection with first quoted sentence above, Treaty Department spokesman is suggesting to director of Department and Foreign Minister that Foreign Office purposes requesting amendment to paragraph 2 of protocol suggested by Department will be met by accepting paragraph 2 as proposed by Department and amending paragraph 3 by such wording as "the Minister for Foreign Affairs of the Republic of China stated that he was authorized by his Government to declare that the Republic of China accepted the reservation and understandings of the Senate of the United States, quoted as follows: 'The Government of the United States of America does not accept section 5 (c) of the protocol relating to protection against translations of literary and artistic works and with the understanding that US interests in this respect will be interpreted in accordance with the provisions of the treaty as to commercial relations signed at Shanghai October 8, 1903, until further negotiations and agreement concerning translations are forthcoming.'" And "The Senate further understands that the treaty does not obligate either party to extend most-favored-nation treatment with respect to copyright".

Paragraphs 7, 8 and 9 as stated Deptel 1246, August 30, 6 p. m.

He is also presenting Embassy position that original wording paragraphs 2 and 3 will best meet purposes acceptance Senate reservation and understandings.

Embassy reiterates request contained Embtel 2046, October 31 that instruments of ratification be sent Nanking soonest. If preparation instructions to be delayed for any reason, alternative of immediately sending Chinese instruments to Washington might well be explored.

STUART

711.932/10-3148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 5, 1948—4 p. m.

1550. Dept believes Treaty Department revision para. 2 (Embtel 2046, Oct. 31) undesirable because (1) appears continue Art XI par-

tially in force (2) neglects Senate intention regarding further negotiations (3) paraphrasing risky in any event. Proposed amendment para. 3 protocol exchange ratifications FCN treaty (Embtel 2054, Nov. 1) acceptable. Instrument ratification being prepared. Will be forwarded soonest.

Dept strongly prefers exchange notes GATT, ITO, Trust Territory either simultaneously with or before exchange ratifications treaty. However, if ForMin unwilling, Emb authorized agree procedure suggested Treaty Department (Embtel 2046, Oct. 31).

LOVETT

711.932/11-2248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 22, 1948—6 p. m.

[Received November 22—8:36 a. m.]

2277. ReDeptel 1550, November 5, 4 p. m. and Embtel 2054, November 1 regarding text Embassy and Treaty Dept spokesman hoped would be acceptable to Dept and Foreign Minister.

Foreign Minister proposes new text for following reasons:

(1). Clause "until further negotiations and agreement concerning translations are forthcoming" objectionable personally as indicates informal document intention of future negotiations on matter over which two Govts hopelessly deadlocked. Embassy reacted strongly this mutilation Senate reservation. Treaty Dept heads sending fresh instructions in view Dept's prior instructions and Legislative Yuan approval future negotiations.

(2). Foreign Minister feels statement re MFN treatment (a) superfluous and therefore prefers to state in protocol that it has been "placed on record"; (b) cannot read "authorized by Govt to accept" as MFN understanding inadvertently not covered by Legislative Yuan resolution.

Foreign Office text follows:

Paragraph 1 agreed.

Paragraph 2. "The Ambassador of the United States of America stated that the treaty is ratified on behalf of the United States of America subject to the reservation and understanding set forth in the resolution of June 2, 1948, of the Senate of the United States of America advising and consenting to ratification *which reservation and understanding are as follows: 'the Govt of the United States of America does not accept section 5 (c) of the protocol relating to protection against translations of literary and artistic works and with the understanding that US interests in this respect will be interpreted in accordance with the provisions of the treaty as to commercial relations signed at Shanghai, October 8, 1903.'*"

Paragraph 3. "The Minister for Foreign Affairs of the Republic of China stated that he was authorized by his Govt to declare that the Republic of China accepted the aforesaid reservation and understanding."

Paragraph 4. "The Ambassador of the United States of America also stated that the resolution of June 2, 1948, of the Senate of the United States of America containing the following understanding: 'The Senate further understands that the treaty does not obligate either party to extend most favored nation treatment with respect to copyright.'"

Paragraph 5. "The Minister for Foreign Affairs of the Republic of China stated that he has placed this understanding on record."

Closing three paragraphs agreed.

Embassy recommends amendment language paragraph 2 as proposed above by Foreign Minister to include negotiations clause and acceptance other paragraphs.

Embassy appreciates and congratulates Dept on prompt transmission ratification instrument which arrived excellent condition.

STUART

711.932/11-2248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 26, 1948—9 p. m.

1715. Dept agrees clause "until further negotiations and agreement concerning translations are forthcoming" forms integral part Senate reservation. Protocol of exchange must clearly indicate ChinGovt acceptance full substance reservation. Para. 2 FonOff text (Embtel 2277, Nov. 22) acceptable if amended to include full quotation negotiations clause.

Paras. 3, 4, 5 FonOff text acceptable.

MARSHALL

711.932/11-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 30, 1948.

[Received November 30—6:41 a. m.]

2377. ReEmbtel 2376, November 30.¹⁸ Text of press release made 4:30 p. m., November 30 as follows:

"The exchange of ratifications to the 'Treaty of Friendship, Commerce and Navigation between the United States of America and the Republic of China' took place at the Ministry of Foreign Affairs

¹⁸ Not printed.

at 4:30 p. m., November 30. The exchange of ratifications and the signing of a 'Protocol of Exchange of Ratifications' took place between the Honorable J. Leighton Stuart, American Ambassador to China, and His Excellency Wang Shih-chieh, Minister for Foreign Affairs of China.

"The treaty was signed on November 4, 1946 at Nanking and was ratified without reservation by the Chinese Government on November 11, 1946. The Senate of the United States approved the ratification subject to its reservation and understandings in a Senate resolution dated June 2, 1948. The American ratification was signed by President Truman on November 8, 1948.

"The following is the text of the Protocol of Exchange of Ratifications:

"The undersigned, J. Leighton Stuart, Ambassador Extraordinary and Plenipotentiary of the United States of America to the Republic of China, and Wang Shih-chieh, Minister for Foreign Affairs of the Republic of China, duly authorized by their respective Governments, met this day for the purpose of exchanging the instruments of ratification of their respective Governments of the Treaty of Friendship, Commerce and Navigation between the United States of America and the Republic of China, signed at Nanking on November 4, 1946.

The Ambassador of the United States of America stated that the treaty is ratified on behalf of the United States of America, subject to the reservation and understanding set forth in the resolution of June 2, 1948, of the Senate of the United States of America, advising and consenting to ratification, which reservation and understanding are as follows: "The Government of the United States of America does not accept Section 5 (c) of the protocol relating to protection against translations of literary and artistic works and with the understanding that United States interests in this respect will be interpreted in accordance with the provisions of the treaty as to commercial relations signed at Shanghai, October 8, 1903, until further negotiations and agreement concerning translations are forthcoming."

The Minister for Foreign Affairs of the Republic of China stated that he was authorized by his Government to declare that the Republic of China accepted the aforesaid reservation and understanding.

The Ambassador of the United States of America also stated that the resolution of June 2, 1948, of the Senate of the United States of America contains the following understanding: "The Senate further understands that the treaty does not obligate either party to extend most favored nation treatment with respect to copyright."

The Minister for Foreign Affairs of the Republic of China stated that he has placed this understanding on record.

The exchange of instruments of ratification thereupon took place in the usual manner, the respective instruments having been carefully compared and found to be in due form.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol of Exchange and have affixed thereto their seals.

DONE IN DUPLICATE, in the English and Chinese languages, at Nanking, this 30th day of November, 1948.

For the Government of the United States of America :

For the Government of the Republic of China : ' "

STUART

[For exchanges of notes, November 29, 1948, regarding GATT, ITO, and Trust Territories, see Treaties and Other International Acts Series No. 1871, pages 94-107.]

NEGOTIATIONS RESPECTING REVISION OF THE AIR TRANSPORT AGREEMENT OF DECEMBER 20, 1946¹

711.9327/1-748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 7, 1948—8 p. m.

[Received January 8—1:57 p. m.]

41. ReEmbtel 2448, December 23, 1947,² and previous telegrams on subject Chinese desire consult with United States in accordance terms article 11, Bilateral Agreement, there follows translation note dated January 2, 1948, received January 5 from Foreign Office in reply Embassy note November 27 [21].³

“The Minister [*Ministry*] of Foreign Affairs presents its compliments to the American Embassy and has the honor to acknowledge the receipt of the Embassy's third person note No. 1275 of November 21, 1947, stating, in connection with the request of the Chinese Government that, in accordance with the provisions of article 11 of the Sino-American Air Transport Agreement, consultations be held with a view toward making certain revisions in the agreement in regard to traffic operations details, that the US Government must be informed of the specific points on which consultation is desired by the Chinese Government and also the reasons therefor, and adding that the US Government is of the opinion that the date on which consultations were requested should be computed from the date the Embassy receives the desired information.

“The Embassy is informed that the matter was referred by the Ministry to the responsible communications authorities from whom a letter has been received answering the various points as follows:

“(1) When the aforementioned agreement was signed on December 20, 1946, it was laid down in (b) of the exchange of notes that airlines designated by the US authorities ‘may not operate inter-regional air business between Hong Kong and any one of the points in Chinese territory mentioned in the annex attached to the agreement’. The original intention of this was that, as special conditions exist between Hong Kong and China, the Chinese Government meant to reserve the transport service on this route to be operated solely by Chinese and British airlines.

¹ Signed at Nanking, Department of State Treaties and Other International Acts Series No. 1609, or 61 Stat. (pt. 3) 2799; for correspondence on negotiations, see *Foreign Relations*, 1946, vol. x, pp. 1228 ff.; for Chinese Government's request for revision, see *ibid.*, 1947, vol. vii, pp. 1423 ff.

² *Ibid.*, p. 1426.

³ Not printed.

This intent was clearly explained when negotiations in connection with the agreement were in progress. It appears that the language of provision (b) of the above-mentioned exchange of notes is not clear and its revision is therefore desirable.

"(2) The wording of paragraphs 1 and 2 of sections a and b of the annex attached to the agreement, specifying trans-Pacific routes, contains inconsistencies and a revision thereof is also desirable.

"(3) As both the agreement and its annex lack detailed, exact, and effective provisions with respect to details of traffic operations, such as the procedure for the establishment of stations in each other's territory and for approval of transportation rates by both parties, execution of the agreement is most inconvenient. Revision is (therefore) also desirable in this connection in order that full satisfaction may be obtained.

"Apart from the above the Chinese Government expresses its agreement with the opinion of the US Government that, in accordance with article 11 of the agreement, consultation on revisions should commence within 60 days from the date request is made and that a period of 60 days should be computed from the date the Embassy receives the (desired) information.

"The above is communicated to the Embassy for its attention and appropriate transmittal."

Comment follows in subsequent telegram.⁴

Sent Department 41, repeated Shanghai 21.

STUART

711.9327/1-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 8, 1948—8 p. m.

[Received January 9—6:21 a. m.]

55. Following receipt of note from Minister of Foreign Affairs⁵ (reEmbtel 41, January 7), Civil Air Attaché⁶ discussed numbered paragraphs 2 and 3, which Embassy considered vague, with Lin, Director International Relations Dept., Ministry of Communications, and Tso and Shaw of Chinese CAA.⁷ During course this discussion it was indicated by Chinese that paragraph No. 2 of note (concerning sections (a) and (b) of annex) was inserted in view of Chinese desire to revise Chinese routes designation in annex so as to resemble broad and flexible language used describe US routes.

No. 3 of note inserted because Chinese have been confronted with one minor difficulty in obtaining a visa for a CNAC⁸ employee who

⁴ *Infra.*

⁵ Wang Shih-chieh.

⁶ Francis C. Jarvis.

⁷ Civil Aeronautics Administration.

⁸ China National Aviation Corporation.

wished to proceed US work for CNAC there. Air Attaché indicated any difficulty encountered in the procurement of visas from Consulate, Shanghai, could be worked out locally and that he did not think revision or addition to agreement necessary to insure to Chinese Govt that such a situation would not arise again. Request made for consultation re approval transportation rates both parties (also outlined paragraph No. 3 of note) assertedly because Chinese are of opinion that in event governmental action deemed necessary in connection with rates Chinese Govt would be unable, due its cumbersome procedures, to act within first 15 of 30 days provided for section *d*, paragraph No. 5 of annex.

Reference paragraph No. 1 of note just received, Embassy has again reviewed language in paragraph *b* of notes exchanged on occasion signing of agreement. Meaning of term "shuttle service" as used in English text of paragraph in question is, of course, carrier operating solely back and forth between two specified points as opposed to through line which stops these points en route to ultimate destination. This meaning not, however, clearly expressed in Chinese text which literally translated states that designated airline "may not operate inter-regional air business" between Hong Kong and any of the points mentioned in annex of agreement. Embassy believes that, taking nothing else into consideration, Chinese can interpret Chinese text this paragraph to exclude American airlines from carrying any traffic this segment of international route, notwithstanding all movement Shanghai-Hong Kong traffic by US carrier is on through international planes.

Lin of Ministry Communications—who played most prominent part for Chinese in negotiations—has frequently mentioned to Air Attaché that Powell⁹ informed him during course negotiations that US carriers would not be interested in movement of Shanghai-Hong Kong traffic and that Lin was, therefore, of belief US would not engage in movement traffic this segment its route and that exchange of notes provided this. Dept may wish consult Powell this connection as statement from him might be used advantageously refute Lin's statements.

As Embassy recalls negotiations, this question was frequently raised by Chinese. Each time they were assured that primary interest US carriers was to carry through traffic for the greatest distance possible on each route and that no concern need be felt over possibilities for competition with Chinese lines on Hong Kong-Shanghai route. Statement was never made by negotiators to effect that positively no Hong Kong-Shanghai traffic would be carried by US carriers. When

⁹ Bolling Powell, Adviser to the Office of Transport and Communications in 1946 and sent to China to assist in negotiation of the Air Transport Agreement.

this question raised, effort was always made to remove it as an issue rather than to solve it absolutely. It was finally agreed to add the proviso which in English assured that no "shuttle service" would be instituted, because Chinese insisted and because US negotiators knew that no US carrier would institute what is described by that term. This narrow term was deliberately used by US negotiators because it gave the type of assurance which the Chinese sought at that time.

When negotiations under way Chinese had had no previous experience along this technical line. They were obviously at a loss to comprehend all the implications of the terms of agreement. Regarding description their routes, for instance, after they had several times failed to produce a route description for section b of annex, Powell himself drafted what he considered a suitable description, which they used as a basis to commence discussion on this subject. These are matters which Butterworth¹⁰ and Powell will probably recall. It appears to Embassy that US Government should hardly be expected to make concessions now because Chinese were so completely inept in handling original negotiation of the agreement, dragging out as it did for about 4 months. The Ministry of Foreign Affairs did not even have representative in negotiations until very last. Ministry of Communications even attributed delay of number of weeks toward end of negotiations to fact it, rather than Foreign Office, was making original translation of agreement because of technical character of document. Agreement (and its appendages) in translation was checked numerous times by Chinese (including Foreign Office) and meaning of term "shuttle service" was made clear to them. It is hard to believe that men like Wu Yuan-chao and Andrew Lin of Ministry of Communications did not know real meaning of term. (Department may wish refer to telegram despatched by Powell during negotiations, especially number 1404 of August 30, 1946.¹¹

The question of Hong Kong-Shanghai carriage by US Lines was not raised as violation of agreement by Chinese when US carrier flights commenced, but, apparently, has only come to be of importance to them since the recent conclusion of bilaterals with Dutch and Siamese (see despatches 1541, July 30, 1947 and 1714, September 26, 1947 from Consul General [at] Shanghai and 1151, December 15, 1947 from Embassy)¹² in which Chinese may be obliged to accord rights Hong Kong-Shanghai traffic to carriers those nations as long as any third nation other than UK enjoys such right.

Sent State 55; Shanghai 28 via courier January 8, 8 p. m.

STUART

¹⁰ W. Walton Butterworth, Director of the Office of Far Eastern Affairs; in 1946, Minister-Counselor of Embassy in China.

¹¹ *Foreign Relations*, 1946, vol. x, p. 1232.

¹² None printed.

846G.79693/1-1548 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, January 15, 1948—5 p. m.

[Received January 15—8:34 a. m.]

102. On January 14, approximately 5 p. m., Jose, PAA,¹³ informed by representative CCAA here by telephone that instructions had been issued by Nanking authorities to customs and police officials, Shanghai, that PAA passengers for Hong Kong scheduled depart PAA's plane 11 a. m. January 15 were not to be permitted to board aircraft. At same time Jose informed that telephone conversation would be confirmed in writing. Representations Chinese Government immediately made by Embassy and Consul General. PAA passengers allowed depart Shanghai January 15.

Further details this development being forwarded Department. It seems these instructions issued from high levels Ministry Communications in apparent violation terms bilateral.

Sent Department 102, repeated Nanking 78.

CABOT

846G.79693/1-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 15, 1948—6 p. m.

[Received January 16—9:25 a. m.]

98. The following is substance Shanghai's 65, January 13, 7 p. m.:

"Jose PAA representative here, advised Civil Air Attaché [that] CNAC has been ordered by CCAA cease sale Shanghai-Hong Kong, Hong Kong-Shanghai tickets for account PAA. Understood CCAA acting under instructions R. Li, director Department Civil Aviation and Navigation, Ministry Communications. Appears Chinese Government took this action in endeavor block movement PAA's traffic Shanghai-Hong Kong prior formal discussions between two Governments re clarification terms bilateral. For Department's background information, general agency agreement between CNAC, PAA expired latter part 1946. Present arrangement informal and without benefit legal documentation.

Liu, CNAC, at first inclined to request CCAA to reconsider this action with view permitting CNAC continue sale Shanghai-Hong Kong tickets for PAA on informal arrangement. However, appears CNAC must comply with Governmental directive. Jose has informed CNAC this action not taken as result of business arrangement but solely on Government instruction and his belief in violation terms bilateral agreement."

STUART

¹³ Pan American Airways.

846G.79693/1-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 15, 1948—7 p. m.

[Received January 16—5:14 a. m.]

99. Reference Embtel 98 of January 15, 6 p. m. to Department, Embassy held lengthy joint discussion of matter with Colonel Tai, Director of CCAA, and Andrew Lin, Director of International Relations Department, Ministry Commerce [*Communications*]. Essence of discussion was that immediate objective of Ministry Commerce [*Communications*], which acted without even consulting FonOff, was to remove American carriers, specifically PAA, from lifting Shanghai-Hong Kong traffic as such, even before proposed renegotiation of Sino-US bilateral is undertaken. At first Chinese attempted avoid responsibility for *de facto* result of action just taken but in course of discussion it was fully admitted that objective was as stated above.

Colonel Tai pointed out that agreement between CNAC and PAA provides that CNAC shall be sole agent for PAA in China, selling its tickets and preparing its manifests. CNAC is Government owned and controlled corporation. Chinese Government, therefore, instructed CNAC it must no longer sell tickets for PAA, knowing full well that PAA would not only violate its agreement with CNAC if it sold its own tickets and prepared its own manifests but also might well face difficulties in arranging with customs to accept PAA manifests. Seems little question this sequence of events deliberately planned by Chinese Government. Furthermore, Embassy learned from Tai and Lin that PAA indicated to Chinese Government that it has little real interest in carrying Shanghai-Hong Kong traffic. They stated further that CCAA and other Departments of Ministry of Commerce [*Communications*] have pressed PAA to discontinue carriage Hong Kong-Shanghai passengers. Tai stated PAA had asked its home office for permission to discontinue selling tickets for this traffic and that local PAA agents had been informed they might discontinue the service. If latter true, it of course plays into hands of Chinese in this situation.

Tai and Lin several times repeated that in order China should not be forced comply with other agreements entered into by Chinese, such as Dutch and Siamese (wherein provided that if airline of any third nation other than UK carries traffic between Hong Kong and Shanghai, Dutch and Siamese will be permitted to do so) Chinese Government compelled take some action. Embassy pointed out this seemed most unpropitious time for such step and that even if PAA stopped carrying Hong Kong-Shanghai traffic US carriers still

possessed right to do so. They agreed, Colonel Tai even going so far as to state that English text of Sino-US agreement unquestionably affords that right. He thought, however, that if PAA discontinued such service, he might convince Dutch and Siamese that no third nation was carrying Hong Kong-Shanghai traffic. Lin especially stressed again and again that if all nations were to carry Hong Kong-Shanghai traffic, Chinese lines, at least on that route, would be "killed", emphasizing competitive weakness of China's airlines, especially in international routes like Hong Kong-Shanghai where total demand assertedly not too great. Tai mentioned embarrassment of Chinese Government in giving US unlimited rights on Hong Kong-Shanghai route while limiting British thereon.

Embassy did not know if¹⁴ fifth freedom principle¹⁵ too vigorously because it is not known here to what extent Department may revise its stand such matters subsequent to outcome international negotiations recently concluded in aviation. Appears to Embassy, however, that while US Government possesses right carry Hong Kong-Shanghai traffic it should definitely not permit Chinese refuse recognize that right or take administrative action which in effect denies that right. When Tai was asked whether PAA could not present its own manifests to customs, he said he did not know, that it was a matter to be taken up with customs. But question and answer were made almost irrelevant and academic by reported action of PAA in agreeing to discontinue the service. Embassy stressed several times re this reported action PAA that question discontinuance PAA carrying Hong Kong and Shanghai local traffic should be settled not between PAA and Chinese Government but between US and Chinese Governments. Appears to Embassy that without cooperation of PAA in this matter (especially now when bilateral agreement may be renegotiated) the principle involved in carriage of fifth freedom traffic is not only being compromised but that those who may be called upon to renegotiate agreement for US may find their position severely weakened and success of negotiations jeopardized.

Sent Department 99; AmConGen Shanghai 44, January 15, 7 p. m.

STUART

¹⁴ According to copy of telegram in Embassy post files, the words "know if" should be corrected to "press".

¹⁵ Five "freedoms of the air in respect of scheduled international air services" were reciprocally granted; the fifth was as follows: "The privilege to take on passengers, mail and cargo destined for the territory of any other contracting State and the privilege to put down passengers, mail and cargo coming from any such territory." It was provided that "the undertaking of each contracting State relates only to through services on a route constituting a reasonably direct line out from and back to the homeland of the State whose nationality the aircraft possesses." See Department of State Conference Series No. 64: *International Civil Aviation Conference, Chicago, Illinois, November 1 to December 7, 1944, Final Act and Related Documents* (Washington, Government Printing Office, 1945), Appendix IV, p. 91.

846G.79693/1-1548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 16, 1948—4 p. m.

67. Shanghai's tel 78, Jan 15 to you ¹⁶ confirms info given Dept by PAA. Dept views this Chinese projected unilateral action with grave concern and approves Emb representations. Dept awaits further details with interest.

Sent Nanking as 67; rptd Shanghai as 80.

MARSHALL

811.79693/1-1648 : Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)

WASHINGTON, January 16, 1948—4 p. m.

81. Northwest Airlines has requested Dept's assistance in obtaining Chinese consent to new service using DC-4's over route Tokyo-Seoul-Shanghai-Okinawa-Tokyo twice weekly with return trip in opposite direction. Service would not affect through flights US-Manila. Present Tokyo-Seoul service to be eliminated.

Dept's preliminary study proposal indicates that exact scheduling of service will be determining factor as to whether service comes within provisions bilateral or not.

Your comments requested para 2 above as well as to probable Chinese reaction in view current situation. Assuming Dept final opinion is that service outside terms bilateral your recommendation re approach to Chinese requested.

Sent Shanghai as 81; rptd Nanking 68; rptd USPolAd Seoul 13; rptd USPolAd Tokyo as 13.

MARSHALL

846G.79693/1-1548 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 16, 1948—7 p. m.

71. Pan Am issued instructions 15th to effect that company will in no way voluntarily give up right carry traffic Hong Kong-Shanghai, urtel 99, Jan 15.

While Dept hopes above will correct undesirable effect Pan Am action reported urtel, point should be made clearly to Chinese that regardless of actions of carrier US Govt alone is one to decide whether fifth freedom rights will be exercised at least until outcome consultation with Chinese becomes known.

Detailed comment urtel follows.

Sent Nanking as 71; rptd Shanghai as 88.

MARSHALL

¹⁶ Sent to the Department as telegram No. 102, p. 779.

811.79693/1-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 20, 1948—6 p. m.

[Received January 21—12:55 p. m.]

130. Reference Deptel sent Shanghai 81, January 16, repeated to Embassy as 68, January 16. Deptel 1535, December 19, 1947.¹⁷ Source close to CNAC informed Civil Air Attaché, Minister of Communications Yu Ta-wei incensed at manner in which CNAC's requests (1) operate to Tokyo, thence return to Shanghai, (2) operate shuttle service Tokyo, Seoul, Okinawa, Shanghai, have been handled by US authorities. Source also stated generally believed in CNAC that precipitate action taken Chinese Govt vis-à-vis PanAm on January 14 (reference Shanghai's telegram 102, January 15, repeated Nanking as 78) reflected Minister Yu's present feelings. Present atmosphere appears most unfavorable and time not propitious raise questions re Northwest shuttle service. As mentioned Embtel [*Shanghai's*] 1812 [to Embassy,] November 25,¹⁸ re PanAm shuttle service, should matter of an American carrier's desires initiate services Tokyo, Seoul, Shanghai, Okinawa be brought formally to attention Chinese Govt it can be expected that Chinese Govt will counter with request it be permitted operate similar services.

Inability CNAC obtain permission operate services mentioned above appears to have created feeling of ill will aviationwise within minister [*Ministry?*] of Communications vis-à-vis US authorities. If Chinese approached now re Northwest desires, and services Northwest proposes operate outside terms of bilateral, unfavorable reaction may be expected. Chinese will likely view services proposed by Northwest as of regional character unless aircraft engaged Tokyo, Seoul, Okinawa, Shanghai operation connect with trunkline services and engage primarily movement passengers for purpose of connection with trunkline planes. It would seem desirable, therefore, before approaching Chinese for Dept determine whether services come within provisions bilateral.

Sent Washington 130, repeated Shanghai 54.

STUART

846G.79693/1-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 20, 1948—7 p. m.

[Received January 21—2:23 p. m.]

131. ReEmbtels 98 and 99, January 15. Civil Air Attaché discussed with Tai, director of CCAA, threatened interference Chinese

¹⁷ *Foreign Relations*, 1947, vol. VII, p. 1425.¹⁸ Not printed.

Government with PAA movement Shanghai-Hong Kong passengers with particular reference situation which developed January 14 as reported Shanghai's telegram 102, January 15. While CCAA officials directly involved, Tai sought escape responsibility CCAA this action, mentioning customs officials would not accept manifests from PAA but only from CNAC. It was pointed out to him that PAA quite competent present its own manifests and not understandable customs officials would not accept them directly from PAA.

When matter of threatened interference police officials raised, Tai endeavored brush this off lightly, stating that for CCAA he was prepared to give assurances that PAA would not be interfered with by CCAA in its operations Shanghai-Hong Kong until such time as bilateral consultation concluded. At this point, Air Attaché informed him US Government desired receive definite assurances that no department or agency of Chinese Government would interfere with PAA operations, and that Chinese Government would abide by terms bilateral agreement. Tai then stated that while he was prepared to admit that English text of agreement stated no shuttle service, etc., and since conversations were held in English this language appeared controlling, nevertheless his opinion understanding between Lin and Powell [does] provide US carriers would not move Shanghai-Hong Kong traffic. Tai went on to say US Government must give full consideration difficult position Chinese Government now vis-à-vis Dutch and Siamese and must afford relief.

Tai said that confirmation of fact no Chinese Government agencies would interfere with PAA movement Shanghai-Hong Kong traffic would have to come from Dr. Lin, director of International Relations Department, Ministry of Commerce [*Communications*]. At close discussion with Tai, Civil Air Attaché queried him as to whether any PAA officials had indicated to Chinese Government that PAA had little interest in carrying Shanghai-Hong Kong traffic. Tai said that he had held conversations last November with Mr. Bond of PAA who, at that time, said he would see what he could do when he returned to the US in clarifying question PAA carriage Shanghai-Hong Kong traffic.

Emphasis again placed on fact PAA or any other US carrier cannot waive rights which accrued to the US as result of bilateral agreement and that any discussions concerning these rights must be confined to the two Governments.

Later in discussion with Lin, same subject, he was informed US desired obtain firm assurances PAA operations Shanghai-Hong Kong would not be interfered with by any instrument of Chinese Government pending outcome consultation under terms bilateral. Lin stated, paradoxically, Tai had worked until 2 a. m. night of January 14 to as-

sure PAA operations would not be interfered with, while at same time asserting no instructions had been issued from Nanking directing any action against PAA. Lin, following lengthy discussion with Tai, then said he could give assurances for Chinese Government that there would be no further interference with PAA movement Shanghai-Hong Kong traffic pending outcome consultation. He said that he was, however, of opinion CCAA had right to direct Chinese carrier, as business matter, not to sell Shanghai-Hong Kong tickets for account of PAA. *As Department aware, general agency agreement between PAA and CNAC has expired, and CNAC now acting as PAA's agent on informal basis and not under legal contract. (ConGentel Shanghai 65, January 13.)¹⁹

Chinese Government has recently promulgated regulation requiring foreign air carriers doing business here procure foreign air carrier permit, form of regulation copied from US CAB²⁰ procedures. From present attitude Chinese Government officials vis-à-vis PAA, possible further difficulties may develop in connection this regulation. Jose, PAA, informed [that] PAA should endeavor meet Chinese requirements this regard promptly. He said PAA will comply. Civil Air Attaché has seen copies material submitted by Hong Kong Airways in compliance this regulation. Application appears simple to prepare and prompt action on part PAA in submitting this data desirable.

For Department's information, Jose, PAA, stated PAA has taken following action here concerning subject PAA's movement Shanghai-Hong Kong traffic. He has recommended to company that PAA discontinue two flights Shanghai-Hong Kong due disruption schedules now occurring on account adverse weather conditions generally prevailing Hong Kong which are further aggravated due conditions under which US carriers must operate into this airport. This causes upset PAA schedules. Jose states that prior making this recommendation, he inquired of CNAC as to whether CNAC would be able to accommodate PAA passengers who would debark Shanghai for Hong Kong. Jose states to his knowledge this is extent PAA's action vis-à-vis PAA's carriage Shanghai-Hong Kong traffic and he also emphasized this action taken solely for technical reasons and not related to question at issue with Chinese Government. Chinese have apparently interpreted perhaps deliberately this action Jose to mean PanAm not interested carriage Shanghai-Hong Kong traffic, which would account for statements made to Embassy, Embtel 99, just subsequent to directive re ticket sales whose objective admittedly was attempt terminate PanAm Shanghai-Hong Kong operation.

¹⁹ See telegram No. 98, January 15, 6 p. m., from the Ambassador in China, p. 779.

²⁰ Civil Aeronautics Board.

Lin requested following statement by him be conveyed informally to Department: if US Government desires to adhere to its present policy regarding fifth freedom traffic, it could view Hong Kong question as unique and unusual, and make concessions on this question. Kowloon, area in which Kaitak located, is sovereign Chinese territory under lease to British and US could, if it so wished, view movement traffic on this route as cabotage. As Department aware, Lin played leading role for Chinese negotiation this agreement and apparently now being held responsible Chinese Government for present difficulties. Obvious, due pressures, he is frantically searching for some means extricate himself from present trying position.

All Chinese arguments thus far advanced are being forwarded Department as they arise in belief helpful in Department's consideration this subject.

Sent Washington 131; repeated Shanghai 55, January 20, 7 p. m.

STUART

893.79694/1-2248 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, January 22, 1948—2 p. m.

122. For Jarvis from AV.²¹ SCAP²² has notified Washington by cable Jan 10 favorable consideration to be given CNAC request Shanghai-Tokyo operation on condition *a*) own logistical support provided, *b*) evidence presented that CNAC designated by China for northern route under bilateral with US.

Dept taking immediate steps attempt correct *b*) above in view non-applicability bilateral this service. SCAP apparently confusing China-US route via Tokyo under bilateral with Shanghai-Tokyo route which in no way affects US territory.

Above may be useful discussions with Chinese.

Sent Shanghai as 122; rptd Tokyo as 19. [AV.]

LOVETT

846G.79693/1-2048 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 29, 1948—6 p. m.

150. Reurtel 131 Jan 20 and previous. Dept discussed with Powell history negotiations for agreement specifically question Hong Kong-Shanghai traffic and meaning of exchange notes on point at issue.

²¹ Aviation Division.

²² Supreme Commander for the Allied Powers, Japan.

Powell confirms Emb understanding stating his opinion there was complete meeting of mind during negotiations, that words "no shuttle service" in notes was clearly understood to prevent an American service operating locally and originating and terminating services Hong Kong and Shanghai not as part of through trunk route. Clearly understood that PAA could carry fifth freedom traffic on through services. Powell will provide Dept with written statement.²³ Powell's recollection was that at least one preliminary draft of notes defined meaning of shuttle service.

Dept concerned that unless Chinese can be induced argue case on basis Bermuda principles²⁴ little progress can be made in reaching solution of problem particularly in view Chinese frame of mind and position Lin para 9 urtel 131. For Emb info Dept regrets this precedent setting case under Bermuda principles should arise in connection Hong Kong-Shanghai traffic view of unusual circumstances involved.

Failure Geneva conference²⁵ has not modified US Govt position re fifth freedom except to emphasize importance supporting this principle existing agreements and extending, in coordination likeminded States, Bermuda type pattern.

Emb is aware Dept's position urtel 130 Jan 20. Dept has no knowledge any official request CNAC for regional service other than Shanghai-Tokyo service and CNAC request to CAB for permit amendment to authorize Okinawa traffic stop on route to US. Understand SCAP has approved request subject two conditions one of which Dept hopes to modify as per Deptel 122 to Shanghai, Jan 22. Dept has asked Air Force not grant traffic rights Okinawa until situation re consultation clarified, believing Emb might use this as bargaining lever. Facilities Okinawa now heavily taxed but Dept believes present rights CNAC technical stop can be expanded include traffic rights without undue difficulty. Emb should notify Dept if at any time grant of traffic rights would aid in negotiations.

Dept will urge PAA take early action para 6 urtel 131.

Dept awaiting CAB comment re possibilities granting Chinese request modify route language, waiting period under rate clause, etc.

Sent Nanking as 150 ; rptd Shanghai as 162.

MARSHALL

²³ Not printed, but see telegram No. 178, February 4, 6 p. m., to the Ambassador in China, p. 788.

²⁴ Set forth in air agreement between the United States and the United Kingdom and Northern Ireland signed at Bermuda, February 11, 1946, Department of State Treaties and Other International Act Series No. 1507, or 60 Stat. (pt. 2) 1499.

²⁵ Special Conference on Multilateral Aviation Agreement of the International Civil Aviation Organization at Geneva, November 4-27, 1947.

846G.79693/2-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 3, 1948—4 p. m.

[Received February 3—10:53 a. m.]

210. Reference Deptel 150, January 29. Conversations Shanghai-Hong Kong question with Chinese thus far on most informal basis and with view to obtaining as much information as possible re Chinese arguments prior to commencement formal consultations.

Embassy will await receipt of detailed instructions from Department before presenting US position this question to Chinese.

Embassy concurs Department's view traffic rights Okinawa should not be granted until situation re consultation clarified and will notify Department if at any time appears grant these rights will aid negotiations.

Incidentally, CNAC has continued sale Shanghai-Hong Kong tickets for account of PanAm. Reference Embtels 98 and 99 of January 15.

Sent Department 210; Shanghai 98.

STUART

711.9327/2-448 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 4, 1948—6 p. m.

178. Re first paragraph Deptel 150, Jan 29. Brief of written statement by Powell to Dept follows. Text airmailed Shanghai for Jarvis. Negotiations began by Powell submitting draft agreement and annex to Chinese negotiators. At first meeting, Chinese stated in English their desire for inclusion in annex a proviso prohibiting US carriers from operating any service originating Hong Kong and terminating in China or vice versa. Chinese advised in English that agreement proposed by US did not permit such service and that traffic between Hong Kong and China could be carried only as fifth freedom traffic on through routes originating and terminating outside of China. Chinese pointed out special political situation re Hong Kong and requested prohibition specifically inserted in agreement. US stated no objection since proviso would not in any way change effect of agreement desired. Negotiators agreed to insert proviso in note exchange and intended meaning of words "shuttle service" thoroughly described in English and complete agreement reached after negotiators referred to definition of term given by Webster's English Dictionary. At no time was term "regional" or any other geographic term considered in preparing texts of notes. In

translating English text agreed upon, Embassy's official translator consulted with Powell. If Chinese characters do not identically describe words "shuttle service" they do not accurately reflect intention of negotiators.

Sent Nanking as 178; rptd Shanghai as 203.

MARSHALL

S46G.79693/2-348 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 12, 1948—5 p. m.

234. While Merchant²⁸ will not become involved in details consultation (urtel 210, Feb. 3) and Dept has confidence ability Emb and Jarvis handle question, may become desirable as situation progresses to have officer Merchant's position and background in civil aviation policy available when required.

Dept anticipates bringing Shanghai-Hong Kong matter up with Chinese in connection aid discussions.

In view above, may be desirable postpone formal consultation as long as possible. If Emb feels delay may give Chinese time to develop burdensome regulatory practices or other devices to achieve their objective without open breach of agreement, or for any other reasons does not concur in above Dept should be informed. This connection, CCAA Notification #2 of Dec 15 (application to be filed by carriers) should be carefully watched.

Re second para urtel, believe Dept's previous communications provide Emb with adequate instructions to open negotiations. Only additional instructions which Dept has at this time refer numbered paras 2 and 3 Chinese note (Embtel 41, Jan 7)

No objection by Dept and CAB to revision Chinese routes eliminating reference specific intermediate points outside US.

Best compromise on rate question Dept can now offer is formal or informal understanding if Chinese unable act on a rate within 15-day period rate would then go into effect but US would be willing consult during reasonable period re any Chinese objection. If case appears sound would exert efforts correct situation. Present language section D-6 Annex to remain unchanged.

Dept concurs views urtel 55, Jan 8 concerning visas, etc., but might agree any reasonable arrangement if necessary in light of over-all negotiation situation. Believe inconveniences to US resulting from Chinese regulations far exceed those resulting US laws and regula-

²⁸ Livingston T. Merchant, appointed Counselor of Embassy in China, December 15, 1947, en route to Nanking.

tions and Emb might use this argument get Chinese drop question.
Sent Nanking as 234; rptd Shanghai as 264.

MARSHALL

711.9327/2-1848 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 18, 1948—noon.

272. If Chinese open consultation with discussion Hong Kong-Shanghai problem on basis technical status Kiatak Airport, Dept wishes reaffirm position outlined first three sentences, para 2, Deptel 1535, Dec 19.²⁷ US should not be drawn into argument over status Kowloon area and should state question is problem between Chinese and UK.

Sent Nanking 272; rptd Shanghai 304.

MARSHALL

711.9327/2-2748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 27, 1948—6 p. m.

316. Re formal consultation under air transport agreement due to commence Mar 4. If agenda for consultation is discussed Emb should inform Chinese US desires discuss Ministry of Communications Regulation dated Dec 1, 1947 (permit for foreign airlines to do business in China) indicating US believes certain provisions regulation inconsistent with terms bilateral. Dept will cable views re specific articles considered in conflict with agreement.

Sent Nanking as 316; rptd Shanghai as 363.

MARSHALL

711.9327/3-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 1, 1948—3 p. m.

[Received March 1—9:30 a. m.]

385. Reference Deptel 316, February 27, 6 p. m. Civil Air Attaché called on Lin of Ministry Communications and informed him Embassy desired postpone consultation under Air Transport Agreement until Merchant arrived Nanking. Lin agreed March 1 consider negotiations started and agreed to adjournment until Merchant arrives.

Sent to Department at 385, repeated Shanghai as 162.

STUART

²⁷ *Foreign Relations*, 1947, vol. VII, p. 1425.

711.9327/3-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 19, 1948—10 a. m.

[Received 3:20 p. m.]

494. Merchant and Jarvis met with Chinese national [*a. m.*] March 18 on requested consultation re bilateral air agreement. Lin, director International Relations Department, Ministry Communications, headed Chinese group composed of representatives CCAA, Department Navigation and Civil Aviation, Ministry of Communications, and Foreign Office. Lin trotted out arguments he had previously advocated and earlier reported to Department. Lin eventually settled on argument re sovereignty of Kowloon as most important for Chinese case. He did not emphasize at length difference in Chinese characters end [in?] word "shuttle" in paragraph *b* of notes exchanged at time signing of agreement but strongly endeavored sell idea that US could refrain from Fifth Freedom carriage between Hong Kong and Shanghai, view it as cabotage and, as far as other nations are concerned, not impair US Fifth Freedom policy.

After Lin's opening statement, Chinese were handed informal statement of US position on points raised in Chinese note prepared in accordance Department's instructions, and containing abstract of Powell's statement. Chinese were informed that all arguments Chinese had informally advanced had been reported to Department, had been thoroughly considered, and therefore this statement represented final US position. Merchant informed the Chinese that the instructions which he had received from his Government were inflexible and final.

Lin, during course discussion, stated Chinese Government policy on this matter firm and that if US not prepared to cease movement Fifth Freedom carriage on this segment its route, there would be serious "consequences". Upon inquiry as to what these "consequences" would be, Lin did not elaborate. When Lin was informed Chinese should discuss with British and not with US matter of US right to operate into and out of Kaitak (Kowloon), Lin said China properly should discuss this subject directly with US as China firmly maintained that this was "cabotage" or carriage within sovereign Chinese territory and hence concern solely of Chinese. Lin was thereupon asked if it was not true on basis his position that China was granting UK cabotage rights between Kowloon and Shanghai. Reply was unresponsive and this may prove best hook on which to impale Chinese argument.

Lin most insistent Department be requested further consider status of Kowloon and Chinese position that carriage between Kowloon and

Shanghai in effect cabotage. Merchant reluctantly agreed to wire Department but informed Chinese that he knew there was no hope Department could or would change position outlined in statement which had been handed to Chinese.

Embassy continues fully to concur in Department's position and would welcome early reiterative instruction. Risks well worth running in maintaining obdurate position, appear to be that (a) Chinese accepting but then making operation practically impossible by administrative actions in which case Embassy believes remedy would lie in immediate representations to Foreign Office or (b) Chinese refusing to accept our interpretation and throwing matter through disputes article to ICAO²⁸ council in which event US case appears so strong on merits as to insure favorable decision.

Sent Department 494, repeated Shanghai 200.

STUART

711.9327/3-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 19, 1948—7 p. m.

[Received March 20—1:15 p. m.]

505. ReEmbtel 494, March 19. During course discussion re bilateral air agreement March 18, Lin handed Merchant copy of draft note which Chinese desired United States regard as statement of issues which they wished to discuss. First paragraph contained revised language paragraph (b) of note exchanged when Agreement signed in 1946. Following section paragraph (b) “—no shuttle service will be operated by designated United States carriers between Hong Kong—” revised to read “—the designated United States carriers shall not carry any regional traffic in passengers, cargo or mail between Hong Kong—”. Words “and New York” inserted after “at San Francisco”.

In other paragraphs this draft Chinese requested:

1. Paragraphs (b) 1 and (b) 2 of the annex be changed to read as follows: Subparagraph (1) China over-Pacific route to Seattle, San Francisco and New York and beyond; subparagraph (2) China over-Pacific route to Honolulu, Los Angeles, San Francisco and New York and beyond.

2. Insertion in annex of paragraph to be numbered b3 which would read: “Suitable technical landing points in the US territory for the operation by Chinese carriers on each of the above routes, shall be provided by the US Government”.

3. (c): In addition to the foregoing modifications both Governments further agree that they will permit the designated carriers of the other party to send officers and/or employees into their territory

²⁸ International Civil Aviation Organization.

for the purpose running of their business; and that they will allocate to the designated carriers of the other party a fair share of the international mail to be brought out of their respective territory."

Jarvis discussed draft note with Lin on March 19, and informed him that Chinese requested revision of routes substantive and in effect request for renegotiation of agreement. Lin mentioned that China was prepared accord to US rights operate to Kunming. Jarvis said as Lin would recall US had stated at time negotiation agreement it desired obtain rights at Mukden. Lin replied only point Chinese could now offer would be Kunming as this only other point which had been designated by China as an international airport and which US did not now touch. Lin was then informed that, notwithstanding such designation, US could request rights to land at other points. Following mention of Mukden, Lin visibly cooled on pressing for route revisions outlined and said that to China this was minor matter; that Shanghai-Hong Kong question was important subject. He did, however, wish United States to entertain the request and at same time stated that US, greatest advocate of Fifth Freedom principle, should certainly be willing to permit China fly across US in order facilitate China's operations on to Europe. China did not, of course, in making this proposal have in mind movement of cabotage traffic.

When queried concerning paragraph *b* 3, Lin frankly said he did not know why it had been inserted and could not contact officer of CCAA who drafted it. He was informed that US could not understand why such a paragraph had been inserted as US had excellent airports and facilities and had made these facilities available for technical landings.

Concerning matter of visas, Lin agreed this subject could be handled in accordance with US suggestion that Embassy dispatch note to Minister Foreign Affairs confirming that US in accordance with usual procedures will grant visas to Chinese nationals going to US to work for hire for airlines designated by China operate to US.

Lin was informed that question of movement by Chinese carriers of international mail originating in US was not relevant and should be removed from these discussions. It was suggested to him that this should be handled between Embassy and Foreign Office as an independent matter. Lin said he would further consult Foreign Office this connection.

According to PanAm, Chinese levy tax of US 17 cents per gallon on gasoline loaded on US planes here. Embassy now investigating facts this situation and if Department perceives no objection will raise this question with Chinese during course consultation.

Embassy would welcome instruction from Department inform Chinese US will not agree to any changes in route pattern. Foregoing

on assumption US not interested at this time obtaining rights land other points here such as Mukden.

Sent Department 505, repeated Shanghai 203.

STUART

711.9327/3-1948 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 24, 1948—3 p. m.

439. Reurtel 494 and 505 Mar 19.

1. Dept reiterates previous position Hong Kong-Shanghai Fifth Freedom rights. We continue believe final results consultation this question likely have greater significance in terms worldwide US Fifth Freedom position than in terms specific routes in China. Concur Embs position last two sentences para 3 urtel 494. Political status Kowloon not properly subject for discussion connection Air Transport Agreement and Dept continues to hold that matter is one for discussion between Brit and Chinese.

2. Dept concurs (urtel 505) Chinese route requests would amount to renegotiation agreement. Dept will not at this time agree to any changes in Chinese routes involving additional US traffic points. Dept still willing amend Chinese routes re Para 5 Deptel 234 Feb 12.

3. Concur Embs position re Chinese request add new subpara b (3) to Annex.

4. Agree re desirability raising question re gasoline taxes.

Sent Nanking; rptd Shanghai as 516.

MARSHALL

711.9327/4-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 1, 1948—3 p. m.

[Received April 2—5:03 a. m.]

585. ReEmbtels 494 and 505 of March 19, 1948. Merchant and Jarvis met with Chinese on March 31 further discuss bilateral. Lin headed Chinese group composed representatives of CAA, Ministry Commerce [*Communications*] and Foreign Office.

Merchant moved at opening to dispose of other points under discussion before Shanghai-Hong Kong question in effort obtain favorable action from Chinese on gasoline tax prior to informing them final US position Hong Kong-Shanghai. Lin said Chinese considered other problems "very easy, but Shanghai-Hong Kong question main issue". Lin insisted upon discussion of Shanghai-Hong Kong immediately, stating his investigation gas tax still uncompleted.

Merchant then informed Lin that instructions Embassy had received from Washington in response to cable, which outlined at length arguments which Lin had advanced in support Chinese case and also background which had been developed in previous discussion, were as he expected, and on which he had attempted to forewarn Lin. Instructions maintained unalterably US position presented March 18.

Merchant restated US case as follows: "Right carry Fifth Freedom traffic Hong Kong-Shanghai is right which was implicit in negotiation, that English text exchange of notes clearly reflects agreement reached in negotiation, that US engaged in movement such traffic for considerable period before any question was raised by Chinese Government." Merchant, at this point, again referred to informal statement of US position handed to Chinese on March 18.

Lin pursued line advanced March 18 and said "China would allow US carriers move Fifth Freedom traffic between Hong Kong and Shanghai (presumably by flying boat), but Kowloon is Chinese territory, therefore carriage of Kowloon-Shanghai traffic is cabotage." Lin changed his description of subject at hand at this point to movement of Kowloon-Shanghai traffic. Lin said "your difficulty is trying to get around this Fifth Freedom, but there is no such principle involved here." Merchant promptly informed him that US not searching for formula to deny US rights granted under agreements, that negotiators knew at time agreement reached only feasible method serving Hong Kong was through use of Kowloon airport.

Lin said, as we were aware, he had been principal negotiator for Chinese Government, and in conversations which he had with Powell, latter frequently stated US had no interest in movement of traffic between Hong Kong and Shanghai. He was informed it was true that US not interested in operation of "shuttle service". Any international trunk line operator is primarily interested in long haul through passengers as this movement essential successful trunk line operation. Lin again mentioned discussions with Powell and again stated he had received assurances from Powell that US was "not interested" in the carriage of Hong Kong-Shanghai traffic. At this point, Merchant asked him following question: "Is it your contention that Powell or any other American negotiators gave you secret verbal assurances on behalf US that US would under no condition carry Fifth Freedom traffic between Shanghai and Hong Kong?" Lin responded, "No, that is not the case—not at all," but that Powell said that US "would not be interested in this kind of traffic." Lin said he asked Powell "to put this down in writing." Powell, according Lin, said "No, US Government is advocate of Fifth Freedom principle," and then Powell mentioned other Fifth Freedom agreements

US had concluded, but did state "I can assure you that we will not be interested in such business."

Lin was then informed that what he had just said coincided exactly with Powell statement which was made in clear context of operation shuttle service between Hong Kong-Shanghai.

Lin said that as US had pursued argument on basis Powell's written statement, result, there is no argument at all. Now, since US could not see Chinese point, Chinese had changed approach, i. e., carriage Shanghai-Hong Kong not involved, but carriage between Kowloon and Shanghai, and therefore cabotage.

Traffic moving between Hong Kong and Shanghai then discussed and brought out by US that Chinese carriers move upwards of 2,000 passengers a month between Shanghai and Hong Kong and that thus far PAA had moved very few passengers. Lin admitted American carrier movement Shanghai-Hong Kong traffic insignificant, but pointed to competition which would develop if Dutch, Siamese, French, *et al.*, should be in position operate on this route. US mentioned safeguards Bermuda principles afforded Chinese.

Near close discussion Lin said that arbitration or denouncement available to China. He would report results this meeting to his Government and inform US side at next meeting Chinese Government decision.

Embassy disbelieves Chinese would take drastic step of denouncement, all present circumstances considered. Embassy also doubts Chinese resort to arbitration in view publicity which would presumably surround first dispute laid before ICAO.

Merchant, in process official calls, will endeavor call on Minister of Communications Yu Ta-wei at earliest to attempt convince Yu soundness US case before subject moves beyond Ministry Commerce [*Communications*]. Foreign Office participation thus far at low level.

Should, as result this discussion, Chinese attempt administratively block or hamper PAA movement traffic these points, Embassy will make representations highest level Foreign Office.

Other points which Chinese have characterized minor, under continuing discussion between Lin and Jarvis. Department will be kept informed.

Sent Department 585, repeated Shanghai via courier 233.

STUART

846G.79693/4-548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 5, 1948—3 p. m.

[Received April 6—3 a. m.]

608. Merchant discussed Hong Kong-Shanghai air traffic impasse April 3 with Minister of Communications. Latter made eloquent plea

for US denunciation on ground not of China's legal case but as "friendly act" in matter of vital importance to Chinese aviation development. Minister did refer to Chinese negotiators' reliance on alleged assurance from Powell of US disinterest in such traffic which they apparently now interpret retroactively as undertaking amounting to US voluntary self-denial such Fifth Freedom traffic. Minister raised possibility Chinese denunciation Air Transport Agreement.

Importance maintaining integrity Fifth Freedom principle everywhere stressed by Embassy and Minister urged to restudy actual traffic figures as demonstration his fears ungrounded on facts.

Embassy recommends US stand firm. Denunciation by China still believed remote but possibility somewhat enhanced. Minister's reliance on legalisms would appear to remove chance of appeal to ICAO by China under disputes article.

Sent Department 608; repeated Shanghai 237.

STUART

846G.79693/4-1548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 15, 1948—5 p. m.

[Received April 17—4:24 a. m.]

678. Embassy learns Minister Commerce [*Communications*] expecting reply to his plea regarding Hong Kong-Shanghai air traffic reported Embtel 608 of April 5. Please confirm Embassy's assumption Department instruction contained Deptel 439 of March 24 remains in force.

Repeated Shanghai 278.

STUART

846G.79693/4-1548 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 22, 1948—5 p. m.

613. Embs assumption correct reurtel 678 Apr 15, particularly in view last para urtel 608 Apr 5. Repeated Shanghai as 734.

LOVETT

846G.79693/6-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 9, 1948—11 a. m.

[Received 2:41 p. m.]

1037. Yu Ta-wei, Minister Commerce [*Communications*], who has been ill, told us today that he wished shortly to reopen question of

Hong Kong-Shanghai air traffic. He reiterated that China could not afford to open it upon a Fifth Freedom basis to other countries as well as ourselves.

Sent Department 1037; repeated Shanghai 459.

STUART

711.9327/6-1748 : Airgram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1948.

A-129. Connection consultation air transport agreement, suggest Emb attempt elimination or, if that is impossible, modification of art 3 agreement. Present wording appears to be in error in that it is multilateral language derived from Chicago standard form.²⁹ Suggest Emb review files concerning negotiations, particularly Deptel 732 Sep 9, 1946.³⁰

Copy this airgram being sent Shanghai.

MARSHALL

846G.79693/6-3048

The Ambassador in China (Stuart) to the Secretary of State

No. 288

NANKING, June 30, 1948.

[Received July 14.]

The Ambassador has the honor to enclose for the information of the Department of State a copy of a memorandum of conversation which took place on June 24, 1948 between Mr. Quentin Roosevelt of the China Aviation Corporation and Mr. Jarvis, the Civil Air Attaché, on the subject of United States air carrier movement of Shanghai-Hong Kong traffic. The Department will observe that Minister of Communications Yu Ta-wei informed Messrs. Roosevelt and Bond of Pan American Airways that he felt that China was "licked" on the Shanghai-Hong Kong question, and that China would likely not take any further action in the matter until the present agreement expired.

The Embassy would like to suggest that this memorandum not be discussed with Pan American Airways in order to insure that source will in future feel that such matters can be freely discussed with Embassy.

²⁹ See Department of State Conference Series No. 64: *International Civil Aviation Conference, Chicago, Illinois, November 1 to December 7, 1944, Final Act and Related Documents*.

³⁰ *Foreign Relations*, 1946, vol. x, p. 1239.

[Enclosure]

*Memorandum of Conversation, by the Civil Air Attaché in China
(Jarvis)*

SHANGHAI, June 24, 1948.

Mr. Roosevelt during the course of a conversation on another matter, volunteered that he and Mr. Bond of Pan American Airways had called on Minister of Communications Yu Ta-wei, and during the course of their discussion with him, he mentioned the "Shanghai-Hong Kong consultation with the Americans." According to Mr. Roosevelt, Minister Yui stated that, during the course of the discussions prior to the conclusion of the Sino-United States air agreement, an understanding had been reached between the Chinese negotiators and Col. Powell of the U. S. under which the U. S. agreed to refrain from the movement of Shanghai-Hong Kong traffic. Minister Yu informed Mr. Roosevelt that in the event he was responsible for any further treaty negotiations with the Americans, he intended to have a battery of one hundred lawyers available to check each word in the document.

Apparently Minister Yu then asked Messrs. Roosevelt and Bond whether there was a possibility that some arrangement could be made whereby, through an exchange of letters between carriers, Pan American Airways would voluntarily refrain from movement of traffic on this segment of its route. According to Mr. Roosevelt, he and Mr. Bond informed Minister Yu that the matter did not rest with Pan American, but was one which had to be discussed solely between the two Governments. Mr. Roosevelt indicated that he and Mr. Bond then informed Minister Yu that Pan American Airways was not actively promoting competition for CNAC on this route and had in fact positively refrained from such activity. Mr. Jarvis gathered the impression that Messrs. Roosevelt and Bond left with Minister Yu the thought that PAA would voluntarily refrain from movement of this traffic if the U. S. Government would not intervene.

At this point, Mr. Roosevelt queried Mr. Jarvis as to the possible reaction of the U. S. Government in the event PAA suggested that it, by an exchange of letters, agree to refrain from the carriage of this traffic and at the same time pointed out the insignificant amount of traffic handled by PAA on this segment due to foreign exchange difficulties. Mr. Jarvis informed him that he was sure that the U. S. Government would not agree to such a suggestion; that the U. S. position vis-à-vis the Shanghai-Hong Kong question was firm. Mr. Jarvis went on to say that not only the rights of PAA were involved in this case, but also those of such other U. S. carriers as might be certificated to operate on this route.

Mr. Roosevelt then mentioned that Minister Yu had informed him that he did not wish to put any pressure on the CNAC request to operate to Tokyo, nor did he wish Col. C. Y. Liu, of CNAC, to do so, as in the event he decided to take further action on the Shanghai-Hong Kong question, he did not wish the Americans to be in a position to point to the fact that CNAC had been permitted to go through Tokyo in justification U. S. operation into Hong Kong. Mr. Jarvis informed Mr. Roosevelt that no attempt had been made to "tie-up" Tokyo with the Shanghai-Hong Kong question, as the U. S. believed that the Shanghai-Hong Kong case would stand on its merits.

At the close of the discussion, Mr. Roosevelt said that Minister Yu stated that he felt China was "licked" on the Shanghai-Hong Kong question and that China would likely not take any further action on the matter until the present agreement expired.

711.9327/7-2848: Airgram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, July 28, 1948.

[Received August 2—3:56 p. m.]

A-679. Reference Department's Airgram A-129, June 17, 1948. Embassy has not endeavored, as yet, to eliminate or modify Article 3 Bilateral Air Transport Agreement, in order eliminate possibility reviving discussion dormant Shanghai-Hong Kong question.

According Pan American representative here, prior conclusion Bilateral Agreement, PAA did not have any agreement with Chinese Government covering services to China.

CABOT

[No record of further negotiations regarding revision of the Air Transport Agreement has been found in the Department files.]

CONSIDERATION OF SENDING TO CHINA A TECHNICAL CIVIL AVIATION MISSION TO ASSIST THE CHINESE GOVERNMENT¹

893.796A/9-447

The Secretary of State to the Ambassador in China (Stuart)

No. 38

WASHINGTON, March 17, 1948.

The Secretary of State refers to the Embassy's telegram No. 1858 of September 4, 1947² and previous correspondence on the subject of the need for a technical mission to assist the Chinese Government in the field of civil aviation, and in particular the need for an exceptionally well-qualified chief of mission.

Recent passage of the "Smith-Mundt Bill," Public Law 402, 80th Congress,³ to which the President has affixed his signature, and the likelihood of appropriations being made available beginning with fiscal 1949 make it possible for the Civil Aeronautics Administration to send, predominantly at the United States Government's expense, a technical assistance mission to countries in the Eastern Hemisphere within the limits of the funds. It has been determined in preliminary discussions with the Civil Aeronautics Administration that a mission consisting of a chief and five associates might be available for assistance to China commencing in the late summer or early fall of 1948. The Civil Aeronautics Administration indicates that it would endeavor to pick a top-flight man with broad experience in both civil and military aviation to be chief of this proposed technical assistance mission to China.

The Civil Aeronautics Administration has indicated further that, although it might send a team of five technicians at its expense to serve under a major general as senior advisor, it would do so reluctantly. The Civil Aeronautics Administration feels that its men would be in the position of serving two masters and would suffer conflicting loyalties, an undesirable situation. Other points to be considered as arguments in favor of assigning a Civil Aeronautics Administration team *in toto* are:

(1) The United States Government might not wish to be put in the incongruous position of maintaining separation of its own military

¹ For correspondence regarding Chinese request for an American adviser on civil aeronautics, see *Foreign Relations*, 1947, vol. VII, pp. 1007 ff.

² *Ibid.*, vol. VII, p. 1016.

³ Approved January 27, 1948; 62 Stat. 6.

and civil aviation and yet assigning a major general to China to serve as senior advisor on civil aviation.

(2) The Civil Aeronautics Administration mission in China would be part of a world-wide program, and it would benefit by the experience gained in Washington by Civil Aeronautics Administration missions elsewhere.

(3) Authorization already exists under the provisions of the "Smith-Mundt Bill" for sending a mission to China should the Chinese Government request one. As stated in Department telegram No. 1046 of August 21, 1947,⁴ enabling legislation would have to be initiated for the assignment of a military man as senior advisor. Objection might be made to the passage of this legislation.

The Civil Aeronautics Administration has had experience in the assignment of technical assistance missions to countries in the Western Hemisphere under the Cooperation with the Other American Republics Program. Enclosed for the Embassy's information is a copy of the fourteen standard points⁵ which have been used as a basis of negotiations for these missions.

It is the Department's understanding that the reason for the Embassy's original recommendation that a major general head such a technical mission to China was that only a military figure of such rank would carry sufficient weight with the Chinese Air Force and with the Generalissimo⁶ to make likely effective enforcement of a proper division of authority between civilian and military aviation. This seems to the Department to be a point of the utmost importance.

Aside from the abovementioned considerations, including the necessity for special legislation, it is understood that it would be exceedingly difficult to obtain from the Department of the Air Force the services of a major general of the caliber and qualifications required. Therefore, in the light of this situation and the events that have transpired since the original recommendation the Department wishes to consult the Embassy as to its recommendations before proceeding further in the matter.

893.796A/4-1248

The Ambassador in China (Stuart) to the Secretary of State

No. 187

SHANGHAI, April 12, 1948.

[Received April 27.]

The Ambassador has the honor to refer to the Department's secret Instruction No. 38 dated March 17, 1948 and to previous correspond-

⁴ *Foreign Relations*, 1947, vol. VII, p. 1016.

⁵ Not attached to file copy.

⁶ Chiang Kai-shek, President of the National Government of the Republic of China.

ence on the subject of the need for a technical mission to assist the Chinese Government in the field of civil aviation.

Events since March 25, 1947 when the Embassy in its secret despatch number 580⁷ recommended the appointment of a military officer—probably a Major General—to advise the Chinese Government on matters concerning civil aviation, lead to the belief that a United States Civil Aeronautics Administration mission, headed by a well-qualified civilian with a staff of competent civilian assistants can effectively discharge its responsibilities under present conditions.

During the past year, there have been indications that the Chinese Air Force is prepared to cooperate with the Chinese CAA⁸ in its endeavors to establish a safe and reliable civil air transport system within the country. Following the Nanking Air-Sea, Search and Rescue and Communications Conference on March 27, 1947, the attitude of the CAF,⁹ vis-à-vis civil air transport changed from one of active militant hostility and obstruction to an attitude of limited cooperation with the Chinese CAA.

During the third quarter of 1947, the CAF gave concrete evidence of its desire to cooperate with the Chinese CAA when it released to the control of the Chinese CAA for civilian purposes, airports in eighteen districts. Further proof that relations between the Chinese CAA and the CAF were measurably improving was manifested when the CAF, in response to a request of the Chinese CAA, agreed to furnish weather information to the Chinese CAA weather communication system which was passed on to the Central Weather Bureau and disseminated at a central point in Shanghai.

As an indication of the fact that the Chinese CAA is receiving the active support of higher levels in the Government, it may be observed that in January 1947, the Chinese CAA submitted to the Executive Yuan for its approval, a revision of the form of application used in connection with requests for clearance for foreign aircraft. This form which was admittedly repetitious and redundant had been characterized as "silly" by Government officials. While this was a minor matter, the CAF, however, at that time, countered this move on the part of the Chinese CAA before the Executive Yuan, with a demand that the control of all civil aircraft operating over the territory of China be vested in it. The Chinese CAA because of its then weak position in the Government was unwilling to challenge the CAF before the Executive Yuan on this issue, and withdrew this request. It is significant to observe that in December, 1947, the Chinese CAA was able to promulgate, without difficulty, this new regulation.

⁷ *Foreign Relations*, 1947, vol. VII, p. 1012.

⁸ Civil Aeronautics Administration.

⁹ Chinese Air Force.

The largely Government-owned civil airlines have made a substantial contribution to the military forces in the movement of military personnel and supplies into battle areas. They have also assisted other agencies of the Government in the evacuation of Government personnel, their families and effects from besieged areas. The foregoing has, of course, strengthened the hand of the Chinese CAA as well as the airlines and increased the bargaining power of those in control of civil aviation, both with the Government generally and with the CAF. While complete divorce of civil and military aviation has not as yet occurred, those elements of the Government in control of civil aviation have made considerable progress. Present indications are that progress will be accelerated with any substantial improvement in economic conditions. The Commanding General of the Chinese Air Force, Chou Chih-jou, on the occasion of the Chinese CAA's first anniversary conference in Nanking on January 20, 1948, publicly pledged the support of the CAF to the Chinese CAA.

The importance of the civil air transport industry, not only to the general economic life of the country as a whole—especially in view of the lack of alternative modes of transport—but also as an important adjunct to the military forces has finally been recognized. When Mukden was besieged by the Communists, the Nationalist General in command of the area called upon executives of the Civil Air Transport (CAT) to undertake the evacuation of seven thousand Chinese nationals from the area. CAT, China National Aviation Corporation and Central Air Transport Corporation, in close cooperation, effectively and successfully accomplished this task.

As a result of the contributions which the civil aviation industry has made to the improvement of economic conditions and to the civil war effort, Col. Tai, the Civil Aeronautics Administrator, has been able to (1) remove CAF objections to many important aspects of the Chinese CAA program: (2) introduce limited private flying which in the forepart of 1947 the CAF vigorously opposed: (3) establish an independent Chinese CAA training school at Hungjao Airport, Shanghai; (4) formally establish the Chinese CAA as the agency in *complete control* of the airports released for civilian use: (5) establish civilian air traffic control stations in certain areas without objection: (6) initiate action with a view to the unification and coordination of air navigation, communication and weather facilities which it is believed will be accepted by the CAF: (7) promulgate and to a limited degree enforce regulations governing civil aviation.

While the frequent disputes and jealousies which characterized the relations between the Ministry of Communications and the Chinese Air Force (Embassy's secret despatch number 580 March 25, 1947) have been mollified to a considerable extent, disputes and jealousies

have developed in the relations between the Chinese CAA and the largely Government-owned airlines, CNAC and CATC. This is particularly true of the CCAA's relations with CNAC. As the Department and the US CAA are aware, CNAC and CATC each operate their own communications, navigation and weather systems in China. Col. Tai, due to a lack of sufficient funds, has been unable to implement stated Chinese Government policy that all communications and navigational services should be in the control of and rendered by the Government on a nonprofit basis.

CNAC has vigorously and stubbornly resisted all attempts of the CCAA to take over and operate facilities of this type. CNAC has based its objections to CCAA control on the fact that the CCAA does not have available to it competent personnel to effectively man and operate this equipment. Col. Tai has frequently indicated that the CCAA is in a position to force the airlines to comply with CCAA's demands, but he has not as yet taken steps along this line. The ability of airlines and particularly CNAC to resist thus far so successfully CCAA efforts to implement certain of its proposals raises the interesting question of whether the airlines, due to their control of practically all the competent personnel available, might, in the long run, actually prove stronger than the CCAA.

The CCAA has an imposing array of approximately five hundred employees of whom only about twenty can be classed as competent in their particular fields. The majority of these competent officers are people who were trained at Kansas City, under the supervision of TWA and with the cooperation of the US CAA and CAB. It thus becomes apparent that one of the most important functions of a US CAA mission will be the instruction and supervision of training of Government personnel.

Due to the fact that Government salaries average approximately one-fifth of the salaries paid by the largely Government-controlled airlines to competent personnel, the CCAA is unable to attract to Government service the few competent people available. Due to the small remuneration for Government service it is quite likely that the CCAA, even though it offers education and "on-the-job-training" in various aeronautical pursuits, will be unable to attract the few Chinese capable of development along these lines. English-speaking Chinese attract premium wages, measured by Chinese standards, from the various industrial concerns. Should, therefore, a US CAA mission come to China, it would seem that the CCAA would have to recruit candidates for instruction in the aeronautical pursuits at the high school level, and endeavor to draw upon those students who have had basic training in English. It would, therefore, appear that a US Civil Aeronautics Administration mission would have to be prepared to accept minimum

practical operating results in the first one to two years of its efforts here.

In view of the general acceptance of the CCAA both within the Government and by the Chinese public and of the record of its accomplishments since it was formally organized on January 20, 1947—limited as they have been under the present chaotic economic conditions and the small appropriations which have been made available to it—it may be said that the influence which the CAF has, in the past, been able to exert on civil aviation has considerably diminished. It has diminished to such a point that the Embassy now believes that a civilian chief of a US CAA mission and his civilian associates would receive sufficient cooperation both from the Chinese Government generally and from the CAF to insure the success of the mission's operations here. The Embassy believes that this trend in China toward civilian control of civil aviation can and should be encouraged by sending a civilian mission. The Embassy, therefore, recommends the assignment of such a civilian mission to China.

The Embassy observes that, in the draft of the fourteen standard points which have been used as a basis of negotiation for such missions in other countries, point numbered 9 provides that the foreign Government shall bear the cost of the acquisition of materials, equipment and facilities necessary to the conduct of the mission. The CCAA presently has in its control and possession the following equipment:

1. International Radio Station XQH7 at Shanghai.
2. Fourteen domestic weather and point to point communications stations. (The CCAA has no air to ground communication facilities as yet.)
3. Five navigational aids.
4. One tower at Kiukiang Airport.
5. Three light planes (2 Piper Cubs and 1 Super Cruiser).
6. One Movietone set with miscellaneous training films. The CAA does not have visual training aids, or training literature.

The Chinese CAA has had CN\$240,000,000,000 made available to it since its inception Jan. 20, 1947. (It is not possible to convert this sum to US dollars.) Approximately 70% of these funds has been spent in airport improvement, principally at Lunghwa Airport, Shanghai, 5% on training and 25% in the improvement of communication facilities.

As upwards of 80% of the national budget is now appropriated for military purposes, it is unlikely that the CCAA can expect that more than a bare minimum of pecuniary assistance will be made available to it while the civil war continues. The Department and the US CAA will, therefore, wish to consider that if the US civil aviation mission will require extensive equipment to facilitate its operations here, it will likely have to be provided by the United States. This requirement could be met, of course, if the Chinese Government "ear-

marked" a small portion of any loan or grant which might be allocated for civil aviation purposes out of the China Aid Program. It is, therefore, suggested that the U. S. may wish to obtain an undertaking to the effect that the Chinese Government will make available to the CCAA funds sufficient for the purchase of equipment required for the successful conduct of a US CAA civil aviation mission.

The subject of the appointment of the CAA mission was informally but lengthily discussed with Col. Tai, the Civil Aeronautics Administrator by the Civil Air Attaché. Col. Tai then informally pursued the matter with Dr. Li, Director of the Dept. of Civil Aviation and Navigation of the Ministry of Communications and with Minister of Communications Yu Ta-wei, who both said that China would welcome such a mission. Col. Tai, personally, of course, was most enthusiastic. However, Col. Tai said that the Chinese Government was in no position to reimburse the U. S. toward the expenses involved in salaries, living allowance, etc., which would be incurred in connection with the assignment of such a mission. He also made it quite clear that the Chinese Government could not furnish housing. Col. Tai stated, however, that the Chinese Government would endeavor to provide domestic transportation, bi-lingual secretarial assistance and office space to facilitate the discharge of the mission's duties.

The Embassy suggests that in view of the changed Chinese Government attitude and particularly the attitude of the CAF vis-à-vis civil aviation that the objectives of a US CAA mission here can be assured under present conditions through the negotiation of the usual agreement under which such a technical assistance mission would come to China, with the Chinese Government. This agreement could incorporate practically all of the 14 standard points contained in the enclosure to the Department's despatch under reference. Point number 6 would, with the Department's approval, have to be modified to the extent that the Chinese Government shall be required to reimburse the US Government only in the event of a substantial improvement in general economic conditions in China.

The Embassy will await further instructions from the Department on this subject.

893.796A/4-1248 : Telegram

The Secretary of State to the Consul General at Shanghai (Cabot)

WASHINGTON, May 14, 1948—5 p. m.

905. Re Condes 187 Apr 12.¹⁰ Dept and CAA holding preliminary discussions re staff of mission and procurement of equipment. More definite info will be forwarded Consulate General within 2 or 3 weeks. Sent Shanghai as Dept's 905 repeated Nanking as 727.

MARSHALL

¹⁰ *Supra.*

893.796A/4-1248 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 4, 1948—5 p. m.

843. ReCGdes 187 April 12, Deptel 905 May 14. Informal discussions attended by interested agencies have now resulted in a general plan of procedure for CAA mission to China. Now contemplated that CAA official will proceed China near future for purpose examining jointly with Emb staff general problems with which mission will be faced, and to render technical assistance to Emb as may be necessary in negotiating agreement. Among problems to be considered are those of housekeeping nature as regards mission personnel, mission structure, and scope of operations.

CAA representative will return Washington after initial problems have been reviewed in order to incorporate material collected into planning of mission.

CAA representative has not yet been designated. However, Dept assured that name and biographical info of person selected will be furnished earliest for forwarding to Emb.

Foregoing may be transmitted Chinese at Emb discretion. Request Emb advise as to whether it perceives any objection plan outlined above.

Sent to Nanking as 843; rptd Shanghai as 1027.

MARSHALL

893.796A/6-1048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 10, 1948—10 a. m.

[Received June 10—4:45 a. m.]

1049. Embassy perceives no objection to plan outlined Deptel sent Nanking 843, repeated Shanghai 1027 June 4. Information contained therein will be conveyed Tai, CCAA.

STUART

EVACUATION OF AMERICANS FROM CHINA

I. PRELIMINARY WARNINGS TO AMERICAN CITIZENS TO LEAVE DANGER AREAS; DEVELOPMENT OF POLICIES AND PLANS FOR THE EVACUATION OF AMERICANS FROM CHINA; GRADUAL WITHDRAWAL OF NON-ESSENTIAL AMERICAN CIVILIANS (JANUARY-OCTOBER 11)

393.1115/1-248 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 2, 1948

[Received January 13—3:36 p. m.]

A-1. With reference to Embassy telegram No. 2469 of December 30,¹ there is quoted below the full text of a circular telegram to the Consular offices at Changchun, Mukden, Tientsin, Peiping, Tsingtao, and Hankow:²

"In view of highly fluid state present hostilities and evidences increasing Communist efforts arouse anti-American feeling we consider that preliminary warning to American citizens is advisable. Accordingly you are authorized to caution American citizens residing interior points of dangers of residence close to areas of hostility, of probable inability Consulates give last minute warnings or effect evacuation and to advise withdrawal to points of greater safety.

"Bearing in mind probable adverse effect on morale local Chinese and on Chinese Govt's position of such advice to Americans at this time, you are cautioned to carry out this instruction as discreetly as circumstances your district permit. In so far as possible this advice should be communicated orally.

"We believe it desirable that all non-essential personnel from interior points north of the Yangtze River and east of Sian should be withdrawn while regularly scheduled commercial air facilities are available or while it is still possible to arrange for special charter flights by commercial companies, leaving in those areas only personnel who would be disposed to remain even under Communist control. You should point out that air transportation is the only reasonably safe means of evacuation at present time and its continued availability depends upon unmolested access to landing fields. You should also point out that if further delay ensues in withdrawing personnel from interior points it is possible that situations may arise where with the best of will it would be impossible to dispatch United States aircraft because of lack of landing facilities at destination.

¹ *Foreign Relations*, 1947, vol. VII, p. 422.

² Dated December 29, 1947.

"Although we do not wish to appear alarmist it is our thought at the present time that it would be better for Americans to be concentrated in areas such as the Shanghai-Nanking-Hangchow triangle, Tsingtao, Tientsin, Peiping and Hankow where if the situation continues to worsen evacuation could be effected with greater prospects of success.

"Shanghai being separately instructed to approach head offices missionary organizations and commercial concerns there. Foreign Office being informed in general terms of our action."

STUART

893.00/1-1948 : Telegram

The Acting Secretary of State to the Consul at Shanghai (Pilcher)

WASHINGTON, January 22, 1948—10 a. m.

119. Dept would appreciate receiving more precise information, including verbatim text if available, of reported (urtel 121, Jan 19³) Red warning to missionaries and other foreigners in central China who assisted allied forces during war to get out of China.

LOVETT

393.1115/1-2248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 22, 1948—1 p. m.

101. In event mass evacuation necessary and in order to meet demands of American public and Congress Dept. desires information monthly basis totals only number Amcitz men, women, children, in critical districts until situation stabilizes. Your discretion as to which areas should report or recommend Dept. least burdensome approach. Dept. would also appreciate advance info as to fund requirement in event mass evacuation Amcitz certain districts necessary.

LOVETT

125.633/1-2348 : Telegram

The Acting Secretary of State to the Consul General at Mukden (Ward)

WASHINGTON, January 23, 1948—6 p. m.

16. Embassy Nanking has authority evacuate American and alien employees their families and effects place safety. Therefore all personnel changes for evacuation purposes should be authorized by Embassy and it will keep Dept informed. Urom⁴ Dec 30 re Teiichiro Tani.⁵

LOVETT

³ Not printed.

⁴ Your operations memorandum.

⁵ Not found in Department files.

893.00/1-2448: Telegram

The Consul at Hankow (Bacon) to the Secretary of State

HANKOW, January 24, 1948—6 p. m.
[Received January 26—3:57 a. m.]

17. ReDeptel to Shanghai 119, January 22. Warning as reported to ConGen was "All missionaries are sent out to China for espionage and to report military movements. We want to get rid of all you young fellows." Missionaries of military age are especially suspected. See Hankow's confidential despatch 55, December 27 to Embassy, copy to Department; and ditto 3, January 11.⁶

Sent Department as 17; repeated Shanghai as 33.

BACON

393.1115/2-1048

The Consul General at Peiping (Clubb) to the Ambassador in China (Stuart)⁷

No. 5

PEIPING, February 5, 1948.

SIR: I have the honor to refer to the Embassy's recent instructions in respect to the matter of evacuation of American citizens from points of possible danger, and to enclose as of pertinency in this general connection a copy of a memorandum of conversation on January 27, 1948,⁸ between representatives of different American organs located in Peiping and myself on the same subject.

It will be observed that I followed the general line of recommendation set forth in the Embassy's circular telegram of December 29,⁹ developing the subject with particular reference to the existing political-military situation in North China. The Embassy will observe that I indicated that Peiping, Tientsin and Tsingtao were points of relative safety at the present time, that certain other points could be considered as not being under immediate threat, but that there were certain areas particularly in which American organizations might well now consider the advisability of removing those American members of their organizations who were classified as non-essential. Further, I indicated that it was deemed desirable to consider the advisability of removal in good time of all persons who might be concerned by further Communist advances, this having particular reference to organizations which did not plan to continue on in the event that the areas in question might fall under Communist control. It

⁶ Neither printed.

⁷ Copy transmitted to the Department by the Ambassador in China in his covering despatch No. 61, February 10; received February 19.

⁸ Not printed.

⁹ See airgram No. A-1, January 2, from the Ambassador in China, p. 809.

will be observed that the participants in the round-table discussion did not give clear indication of their several policies in respect to the matter of carrying on under Communist control. In fact, it would appear that, although they have been giving consideration to the matter, the particular representatives who spoke on the subject had not as yet made up their minds in regard to the question in point.

Those who expressed any opinion in regard to the matter were inclined to the view that the anti-American propaganda carried on by the Chinese Communists had increased in virulence, if anything, in the course of the past year. This is a development which has occurred despite the circumstance that the American forces have been withdrawn from China and the American policy has been generally one of non-interference with Chinese internal affairs. There are, in short, indications that the propaganda begun by the Chinese Communists for cold-blooded political purposes has probably aroused a popular emotion which they now would find it difficult to control—even should they desire to do so. That this popular emotion which has been stirred up by the Communists will upon occasion take the same form of bloody incidents as has been true upon occasion of manifestation of Chinese nationalism in the past seems probable. As is known, killings of American missionaries and missionaries of other nationalities have occurred in China during the past year with the guilt evidently on the hands of Communist units or organizations. On the other hand, foreigners continue to reside in important numbers in places under Chinese Communist jurisdiction and the general testimony of UNRRA¹⁰ workers who have penetrated Communist districts has been that the Communists purport in principle to be against the policy of the United States Government but not antipathetic toward individual American citizens. The temper of the times is such in both Communist and Nationalist controlled areas, however, that it appears to be only sound judgment to prepare for a recrudescence of aggravated Chinese nationalism in the form of anti-foreignism in 1948. It seems probable to the writer that the extension by the United States Government of more direct and more substantial aid to the National Government than has been forthcoming in the past year could only act as a stimulant to the existing anti-Americanism in the Communist controlled areas. Inviting the attention of the Embassy to the manifestly violent character of the declaration of Yenching University students on the subject of "imperialism" (Peiping's *Chinese Press Review* No. 526, January 31, 1948, *Yenching News* of January 26, 1948), I would reiterate my belief that latent Chinese nationalism might in the event of increased aid to the National Government likewise bring about a renewal of anti-American movements in Nationalist controlled territory.

Respectfully yours,

O. EDMUND CLUBB

¹⁰ United Nations Relief and Rehabilitation Administration.

393.1115/2-1648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 16, 1948—7 p. m.

[Received February 17—5:51 a. m.]

305. We wish to offer the following comment on ComNavWesPac's¹¹ operational plan No. 105-47 (China general emergency)¹² referred to in Deptel 176 of February 4, 6 p. m.¹³ Ancillary to this plan is ComNavWesPac's plan No. 104-47 (China local emergency)¹² which we feel should also be subject for consideration by SANACC.¹⁴

These plans were the subject of informal conference in the Embassy executive office February 13 with officers of ComNavWesPac's staff. At that time the Embassy representative pointed out that it was our thought that plans of this nature, either local or general, should clearly recognize that the Ambassador as ranking representative of the US in China is charged with the responsibility for determining when conditions exist requiring concentration or evacuation, together with the attendant necessary protective measures, of American nationals and that likewise he is charged with the responsibility of determining when such conditions have ceased to exist. It was pointed out at this conference that it was not within our province to undertake the revision of purely military aspects of the plans under discussion, but we were convinced that in forthright expression of the principle of ambassadorial responsibility would be essential to the approval of any such plan by this Embassy and that we were so informing the Department of State and requesting instructions.

The Department will note that both plans are based on the assumption of a development of conditions in China, locally or generally, in which civil disorder would take a specific anti-American trend thus endangering American lives and property. While we believe sporadic localized civil unrest to be a probable development, for which adequate concentration or evacuation plans should be prepared, we visualize only as a remote possibility that this unrest would develop without warning throughout China or assume a specific and general anti-American character. The Department will, of course, appreciate the effect upon the position of the government if any premature declaration of an emergency, either local or general, was to take place. Furthermore, the presence of American forces in China having the obvious mission of protecting American nationals and American property would tend to aggravate and inflame any latent anti-American feeling which might exist.

¹¹ Commander Naval Forces, Western Pacific.

¹² Not found in Department files.

¹³ Not printed.

¹⁴ State-Army-Navy-Air Force Coordinating Committee.

Both plans assume that American military force will be used to protect American lives and property in event these appear to be, or are, menaced by civil unrest or disorders. We are reluctant to accept this assumption inasmuch as we consider it to be a matter for policy decision by the Department. In the past, under the extraterritorial system we accepted certain obligations to afford this protection as having full or quasi-legal character and have so acted in certain cases. Even in the extraterritorial period, however, we informed Chinese Government of its obligation to protect American lives and property. With end extraterritoriality, primary legal obligation has passed [to] Chinese Government and our obligation arises only when confronted with obvious inability of Chinese Government to meet its responsibilities. In such circumstances, any action planned by us for protection our nationals and property must, where the question arises in practical form, be considered within the larger framework of overall policy requirements. The implications of using military force for police purposes on territory of friendly sovereign state and possible consequences of so doing, particularly in China at this time, need no amplification.

With regard to purely military details of the plans under consideration, we have confidence in the competence of ComNavWesPac planners. However, it seems to us that the plans lack clarity and precision in those sections which deal with steps to be taken to bring into play increasing amounts of force to meet increasingly serious situations. We feel that considerable danger exists that the premature implementation of a plan to meet a minor situation might result in aggravating conditions which we should seek to avert. In other words, we are convinced that any inherent prejudice in favor of the use of force should be avoided as being contrary to the best interests of all concerned and we, therefore, consider that in all cases the Ambassador or consular officer to whom this overall responsibility may be specifically delegated will be better able to judge whether force is required in any given circumstance and thus avoid the taking of steps to apply force in excess of the requirements of a specific situation.

With regard to ComNavWesPac's general emergency plan, we wish to point out that this involves a military effort of considerable proportions and presupposes [its commission] to action in cooperation with Chinese Government forces for the maintenance of law and order. We feel that such action would involve us in the current civil war to such an extent that the disengagement of our forces would rapidly become tactically and politically impossible.

Inasmuch as we may be requested to engage in other conferences with representatives of the armed services in China on this subject,

we would appreciate the Department's preliminary comment on the foregoing and any additional information on the discussion of these plans in Washington which the Department may undertake to supply us.

STUART

393.1115/2-1648: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 3, 1948—3 p. m.

333. Dept in general agreement comments contained Embtel 305 Feb 16 and appreciates that one or two of points raised therein will no doubt have to be the subject of policy decision in Washington. However Dept believes that as basis for discussion in SANACC it would be desirable to have a joint plan, covering both regional and overall considerations, for protection of Amer lives and property in China in event of emergency. Therefore acting under authority of Presidential directive contained in SWNCC 349/1²⁵ you should thru Executive Office or other appropriate channel undertake preparation of such a plan as a matter of urgency which should be forwarded Dept for interdepartmental consideration here.

Repeated to Shanghai for Consul General only, 387.

MARSHALL

393.1163/3-1248: Telegram

The Consul at Tientsin (Hinke) to the Secretary of State

TIENTSIN, March 12, 1948.

[Received March 12—10:55 p. m.]

75. Through courtesy of Mayor Tu Chieh-shih of Tientsin, and Tientsin and Peiping broadcasting stations, the following message was broadcast at 11 p. m. transmission March 11 by Peiping broadcasting station to North Shensi Hsin Hua radio station, on behalf of British and American Consulates General Tientsin.

Assistance of civil and military authorities at Sienhsien, Hopei in arranging for withdrawal to Tientsin of the American, British and Canadian Sisters now believed residing at the Convent of the Precious Blood, Sienhsien Procuration, Sienhsien, Hopei, will be greatly appreciated by the American and British Consuls General at Tientsin. Registration records for 1947 of British and American Consulates

²⁵ Paper approved by the State-War-Navy Coordinating Committee regarding the establishment of the Executive Office in the Embassy in China; see instruction No.283, March 14, 1947, to the Ambassador in China, *Foreign Relations*, 1947, vol. VII, p. 1429.

General indicated there were 5 American 2 English and 5 Canadian Sisters at Sienhsien. Information will be appreciated as to their present whereabouts, welfare and how soon they can be evacuated to Tientsin.

Sent Shanghai for Connors¹⁹ as 93, repeated Department as 75, Nanking as 124, Peiping March 12th. Chinese text circulated to Chinese press Tientsin through USIS and in English to Reuters Tientsin direct. Will Embassy please advise British Ambassador and Canadian Minister, Nanking. Peiping please advise newspaper correspondents there with credit to Peiping broadcasting station.

HINKE

393.1163/3-1848: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 23, 1948—3 p. m.

435. If broadcast message (Tientsin Contel Mar 12²⁰ sent Emb as 124) does not within reasonable period elicit responsive reply from Chin Communists, consideration should in Dept's opinion be given feasibility sending one or more suitable persons Sienhsien investigate and endeavor effect evacuation foreign Sisters. If this course appears feasible Emb will doubtless wish ascertain views Brit Canadian colleagues and if possible formulate joint course action.

Dept has now received letter²¹ from Mother Superior Monastery of the Precious Blood Manchester New Hampshire directing that foreign Sisters Sienhsien confide their native Sisters to care Chinese community withdraw Peiping Tientsin or Shanghai and seek hospitality their correligionists one of these cities. Enclosed was statement Mother General of St. Hyacinthe Quebec reading "Oblige them all to obey".

Sent Nanking as 435, repeated Tientsin as 70, Peiping as 61, and Shanghai as 510.

MARSHALL

124.06/4-648: Circular airgram

The Acting Secretary of State to Diplomatic and Consular Offices

WASHINGTON, April 6, 1948—8:40 a. m.

PLANS FOR EMERGENCY ACTION

1. The Department is formulating a new set of instructions for the guidance of Foreign Service offices abroad in drawing up emergency

¹⁹ W. Bradley Connors, Consul at Shanghai and Acting Public Affairs Officer.

²⁰ Sent to the Department as telegram No. 75, *supra*.

²¹ Dated March 18, not printed.

plans to be followed in the event of emergency situations arising from any cause whatever in order that the required action may be taken on short notice, in accordance with uniform standards for the protection of American citizens and American interests in general.

2. A comprehensive mimeographed circular instruction is under preparation on this subject and will be mailed to the Field to supplement or replace similar material previously sent to the Field on the same subject, such as the mimeographed circular instruction dated March 21, 1939,²² on the subject of Instructions in Case of Hostilities, addressed to American Diplomatic Officers and Certain Consular Officers in Europe and the Near East.²³

3. In the meantime, the present message is intended as an introductory basic instruction to prepare all United States Foreign Service posts which will, in case of emergency, act in conformity with emergency plans prepared under this instruction and related material under preparation; and consistent with the degree of the emergency, carry out the functions required in the interests of the United States.

4. The following types of situations may call for emergency action:

A. Disastrous conditions in a specified area due to phenomena of nature such as:

- (1) Flood, typhoon, hurricane;
- (2) Volcanic eruption, earthquake;
- (3) Fire;
- (4) Pestilence.

B. Dangerous conditions in a specified area due to the possibility or existence of:

- (1) Civil war, public disorder, or riot;
- (2) Warfare between sovereign states, the United States being neutral;
- (3) Warfare involving the United States.

5. In order to be prepared for any emergency each post shall develop its own set of emergency plans and shall submit them to the Chief of Mission for approval and integration into the Mission general emergency plan for the respective country. The plan should be transmitted to the Department for its information, together with estimates of the costs to the Government for each phase of emergency. It appears logical that the plans for various posts and countries will vary accord-

²² Copies of circular instruction and of a supplement thereto, memorandum E-13-V, were transmitted to the Ambassador in China in instruction No. 85, May 13, not printed; for text of circular instruction, see *Foreign Relations*, 1939, vol. I, p. 574.

²³ Circular airgram, April 28, 9:20 a. m., to Diplomatic and Consular Officers, referred to circular airgram of April 6, with particular reference to "Part I-External, paragraph 7", and added: "This completes Department's basic instruction for entire emergency plan envisaged by reference airgram." (300.1115/4-2848)

ing to the peculiar local problem. In general, however, it is considered that the problem divides itself into two main categories, namely, (1) those concerned with external matters and (2) those involving internal factors. External problems are those which include mainly the factors outside of the Foreign Service establishment; that is, they would cover the statutory responsibilities and related functions of the office in connection with the promotion of American interests in general rather than the office itself. They would involve such items as relief, protection, and evacuation of American citizens, reporting activities, OIE ²⁴ functions, and representation of the interests of the United States or the representation of foreign interests. Internal factors, on the other hand, are connected with the physical problems of the Foreign Service establishment itself. They cover such factors as office organization and personnel, protection and evacuation of employees and families, accounts and fiscal arrangements, communications arrangements and general administrative provisions. The plan, therefore, will consist of two parts as outlined below. If desired, Part I and Part II may be submitted either together or in two despatches.

6. The substance of the emergency plan shall be organized in accordance with the following outline and shall be drawn up in four phases under each heading according to the degree of the emergency: (See Paragraph 9 below).

PART I—*External*

7. An outline of procedures to be followed in discharging the statutory, traditional, and other responsibilities of the Foreign Service for the relief, protection and evacuation of American citizens in general; protection of American property and interests; the performance of political, economic, consular, and OIE functions; and transfer of representation of interests of the United States where required or the fulfillment of commitments for the representation of foreign interests. More detailed instructions for Part I of the plan are in preparation, and pending their receipt the Department's mimeographed circular instruction of March 21, 1939, mentioned above may serve as a general guide where possible for this part of the emergency plan.

PART II—*Internal*

8. The substance of this part of the plan will consist of (A) Functional plan, (B) Security plan, and (C) Personnel plan, as follows:

A. Functional plan providing for normal, restricted, minimal or discontinued operations.

(1) The contents of the functional plan will be determined at each post and communicated to the Chief of Mission.

²⁴ Office of Information and Educational Exchange.

- (2) It will include also a provision for communications arrangements. Emergency alternate communication channels within a country shall insofar as possible be designated by the Chief of Mission, (Ambassador, Minister, et cetera). Emergency courier routes will be designated by the District Communications Officer. The Department will designate emergency communications channels as required.

B. Security plan providing for the protection and evacuation or destruction, if necessary, of:

- (1) Classified material;
- (2) Government property, including passports, legend machines, seals and stamps, in accordance with standing instructions.
- (3) Government funds; accounts; fiscal arrangements.
 - a. U. S. \$ Currency
 - b. Foreign Currency
 - c. Negotiable Instruments
 - d. Copies of Accounts not already rendered to Department
 - e. Fee Stamps
 - f. Unused numbered D. O. checks
 - g. Blank drafts
 - h. Local bank account
 - i. Trust funds for assistance in repatriating Americans, etc.

For purposes of the records and for subsequent tracing, care should be taken to make as complete a record as possible of items destroyed, stored, or evacuated.

Each post should submit to the Department as well as to the Chief of Mission its emergency security plan.

Separate detailed instructions on the disposition of cryptographic equipment and supplies are being transmitted to the Field by Cryptographic Memorandum No. 1-11, contained in change No. 3 to "Cryptographic Memoranda" dated March 1, 1948.

C. Plan for evacuation and protection of Government personnel and effects.

Safety and welfare of U. S. Government employees and their dependents and protection of their property:

- (1) Evacuation to an evacuation point selected by the Chief of Mission of those not required or desired at post;
- (2) Protection of those remaining at post;
- (3) Shipment or protective storage of property of American employees, including inventory and tracer provisions.

9. Reverting to paragraph 6 above, the following standard progression chart shall be applied in setting up the four phases of the functional, security and personnel plans. It will be noted that this chart as devised indicates four degrees of emergency and four grada-

tions of action under (a) Functional plan, (b) Security plan, and (c) Personnel plan. Thus, the three last-mentioned plans, as designed, may be activated in four separate progressive stages as required according to the seriousness of the particular emergency situation encountered. The "degree of emergency" principle shall be adapted also to Part I of the emergency plan when developed.

PROGRESSION CHART

PART II—INTERNAL

<i>Degree of Emergency</i>	<i>A. Functional Plan</i>	<i>B. Security Plan</i>	<i>C. Personnel Plan</i>
Phase 1	1. Normal Functions	1. Alert	1. At the request of Government personnel evacuate their dependents and evacuate or store their personal effects.
Phase 2	2. Restricted functioning; discontinue functions which can be postponed.	2. Check inventories and dispose of unnecessary items by shipment, storage, or destruction.	2. Evacuate all dependents and ship out or store unnecessary personal property.
Phase 3	3. Perform only absolutely essential functions.	3. Retain only essential minimum of classified material and Government property.	3. Retain bare minimum of personnel, evacuate others.
Phase 4	4. Close post. Relinquish U. S. interests to protecting power.	4. Destroy classified material.	4. Evacuate personnel and evacuate or store personal property.

10. Whenever the situation and communications facilities permit, the Department's advance authorization must be obtained for the issuance of travel orders for Government personnel and transportation of their families and effects or for other related action under the emergency plan calling for the expenditure of funds not specifically allotted. It is recognized, of course, that in extreme cases this procedure may not be practicable. Full authority, therefore, for the effectuation of the emergency plan in any country is centered in the principal United States representative in that country (Ambassador, Minister, Chargé d'Affaires, Diplomatic Agent and Consul General). That representative may on his own authority, if necessary in the interest of the national security of the United States, order the plan fully effective. This authority covers all American interests, including Americans serving abroad in a Government capacity in missions or delegations of whatever nature.

11. If advance warning and time permit, certain parts of these plans, after specific authority shall have been granted in each case by the Department, may be carried out in anticipation of an emergency. Principal officers are enjoined to bear this point in mind and

to recommend such procedure to the Department when in their judgment it appears advisable. At the same time, attention in this connection is directed to Section 103.611 of the Foreign Service Regulations which states: "Any expenses which may be authorized may also be approved when incurred without prior authorization because of an emergency."

12. In any case not covered by formal plans the principal officer at the post shall take all possible steps for the protection of American lives and interests in accordance with the traditions, as well as statutory responsibilities of the Foreign Service, informing the Chief of Mission and the Department fully of the circumstances.

13. The Red Cross and similar organizations cooperate with the Department and the Foreign Service in rendering assistance in catastrophes resulting from natural causes. In addition, the Department has in progress arrangements with National Defense for the possible evacuation of American citizens from certain areas should political, military or local security conditions deteriorate. Preliminary interdepartmental conversations are held as occasion warrants in respect of the most practicable evacuation plans which would entail implementation by Military, Naval and Air Forces under various commands, and in order to make necessary arrangements interdepartmentally to provide for sufficient funds to reimburse the respective Departments for expenses incurred.

14. Such arrangements depend likewise upon the formulation of an adequate, detailed, and fully coordinated evacuation plan. The Chief of Mission, therefore, should carefully coordinate the emergency plans in this connection, including estimates of costs as mentioned in paragraph 5 above, with the Service Attachés on assignment in his Mission and with such other Service personnel as may in particular instances be detailed discreetly to accumulate emergency evacuation data for facilitating liaison with Military, Air and Naval authorities in nearby areas.

15. This message is not intended to nullify recent instructions directed to particular areas apprising certain offices of pertinent arrangements already evolved. In such cases it should be found possible to reconcile with the pattern set up in the present message any special arrangements which may already have been made and to integrate them without difficulty into the respective Mission's general emergency plan.

16. Chiefs of Missions are requested to submit to the Department as soon as possible by airgram or airmail despatch preliminary comments in connection with the problem outlined, including a statement of pertinent steps which have been taken or which are contemplated

at posts in the respective countries to which they are accredited. All principal officers are requested to make an airgram acknowledgment of receipt and understanding of the present message.

17. Although this airgram is an administrative message designed to bring certain established routine procedures up to date, its potentially disturbing implications are recognized, and principal officers, therefore, should take precautionary measures to assure that its contents shall not come to the knowledge of unauthorized persons.

18. In the interest of economy and clarity reference in telegraphic correspondence to any feature of this message should be by paragraph number.

LOVETT

393.1163/4-2648

The Consul General at Peiping (Clubb) to the Secretary of State

No. 73

PEIPING, April 26, 1948.

[Received May 10.]

SIR: I have the honor to refer to this Consulate General's despatch no. 68 of April 20, 1948,²⁵ and to Peiping's airgram no. A-3 of April 17 (page 7) ²⁵ in regard to the Communist attitude in respect to the protection of foreign nationals, and to enclose that section of this Consulate General's radio broadcast intercept of February 20, 1948 ²⁶ which, having reference to the murder of three foreign missionaries (including two Americans) in Hupeh Province, set forth what would appear to be a definitive statement of Communist policy as regards the matter in point. It will be observed that (according to the quoted spokesman of the General Headquarters of the People's Liberation Army) "concerning foreigners in China, the policy of the Chinese Communist Party, Chinese democratic government, and the Chinese People's Liberation Army, is to ask them to obey the laws of the Chinese democratic government and the People's Liberation Army and to refrain from offensive acts; so long as they behave this way, the democratic government and the People's Liberation Army will resolutely protect them. Religious freedom is one of the fixed policies of the democratic government and the People's Liberation Army. There is definitely no reason for killing peaceful foreign missionaries."

This office's failure to note at the time of the writing of the reference airgram this radio report was occasioned by the circumstance that the Chinese text of that radio broadcast was mislaid and held up during the enforced absence of one of this officer's translators due to his capture by the Chinese Communists.

Respectfully yours,

O. EDMUND CLUBB

²⁵ Not printed.

²⁶ Not attached to file copy.

393.1115/4-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 30, 1948—noon.

[Received April 30—8:07 a. m.]

779. Master evacuation plan has been completed in draft form by ComNavWesPac in coordination with Embassy as operational plan No. 103 ²⁷ (Deptel 635, April 27 ²⁷). This draft plan has been distributed to local Army and Navy commanders who will submit complementary draft plans for areas their responsibility. Local commanders will coordinate planning with Consulates and submit to ComNavWesPac for coordination with master plan. Master plan as drafted includes recognition Ambassador's responsibility to declare emergency and to declare emergency at end. We have suggested certain amendments to first draft to which Admiral Badger ²⁸ has agreed and plans submit final draft to Department when received. We have asked Badger when we may expect receive final draft and will report further.

In present form, plan provides for procedure to be followed in event civil disturbance in China endanger[s] American lives and property. Master plan refers to separate plan prepared by SANACC to be implemented in event hostilities between USA and Soviet Union. We have not seen this plan but assume its provisions would not conflict in any substantial degree with ComNavWesPac plan No. 103.

STUART

393.1115/5-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 3, 1948—9 p. m.

[Received May 4—8:12 a. m.]

800. Tsingtao makes following comments on letter received from General Wang Yao-wu ²⁹ recommending evacuation foreigners from Shantung:

"Remytel 151, April 29, ²⁷ quoting General Wang Yao-wu's letter of April 23 to this office. We assume that Wang is recommending evacuation foreigners from Shantung, is disturbed by failure save Weihsien, and that he foresees further deterioration North China without knowing when or where next blow will fall. He probably wishes free himself of responsibility for safety of foreigners by assuring their early evacuation.

Our estimate is that Tsinan is safe for several months unless general situation deteriorates more rapidly than now anticipated. The crisis

²⁷ Not printed.²⁸ Vice Adm. Oscar C. Badger, Commander, U. S. Naval Forces, Western Pacific.²⁹ Governor of Shantung.

for that city is not in sight. But in view of trends and recent events there can be little doubt of its eventual fate. If Communist strategy dictates its occupation, it may well fall in near future. The cities in most immediate danger where foreigners reside are Tsachow and Tsaohsien in extreme western Shantung. Lini in south Shantung now estimated as next point of attack by Communists (and others on or near Tsinpu Railway between Tsinan and Hsuchow). Chefoo is not immediately threatened although there is an exodus of private persons from that city to south. Fact that Chefoo is seaport simplified evacuation problem.

In view Wang's warning and in light of developments we feel Americans should be urged immediately evacuate western and southern Shantung. As regards Tsinan we feel residents should be urged close out operations in orderly fashion which would enable all personnel ship effects by rail to south and allow missions remove equipment from properties in event they wish to reestablish institutions in South China. They should again be warned to avoid last minute evacuation with consequent loss of property and inability obtain transportation.

Many missionaries will undoubtedly feel obligated to remain until last minute until their headquarters instruct them leave. Probably most foreign members of staff Cheeloo University at Tsinan will refuse depart while possibility exists continuing operations unless Presbyterian Board orders or unless Wang brings pressure on them, which he might do if requested. We feel that in order make effective any general evacuation this area approval and support Embassy is necessary. Furthermore, Department's support may be necessary in connection action with Presbyterian Board. Would, therefore, appreciate indication Embassy's reaction and advice in this matter."

We have informed Tsingtao we strongly support their view no place in Shantung except Tsingtao is safe and have recommended renewed warning to Americans to leave. Suggest Department in its discretion inform Presbyterian Board.

Sent Department; repeated Shanghai as 335.

STUART

125.633/5-548: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 5, 1948—3 p. m.

[Received May 6—9:21 a. m.]

813. Although next Communist military move in Manchuria is unpredictable, possibility remains that they will attempt major assault against Mukden. In light probable scale their current preparations, involving regrouping and large scale concentration, and in light of fact that Government position continues to deteriorate, we feel that next Communist assault Mukden, even if not successful, would probably be on such scale as to make further evacuation impossible. Even

should Mukden be by-passed, as seems more likely, further evacuation might be impossible. For this reason we recommend evacuation women, children and all other non-essential persons soonest possible.

Embassy cannot find in its files that Ambassador has authorization from Department to do more than recommend an evacuation from any given post. In view of unpredictable nature of situation in various parts of China and possibility of sudden turn of events requiring rapid action, it is requested that Department authorize Ambassador in his discretion to order evacuation official American personnel from any given post to such place as he may deem appropriate. In view of the fact that developments in Manchuria bear directly and immediately upon situation in North China, Embassy proposes, and Department's concurrence thereto is requested, to authorize American dependents who may so desire to evacuate Peiping and Tientsin. It is further proposed that all American personnel in China who may so desire be authorized to pack and ship their personnel [*personal?*] effects at Government expense. This authorization is believed desirable in view of accelerating deterioration of military situation in China generally and absence of evidence that any effective steps are being taken to arrest this trend.³¹

Department's secret travel authorizations 8-5845, 8-5846 and 8-5847, all dated December 29, 1947³² authorize travel orders for American and alien personnel and their effects to "such place or subsequent places of safety in China as may be designated by the officer in charge". It is requested that these authorizations be amended to permit the Ambassador in his discretion to order such travel. In view of crowded housing conditions in all major centers of China and the possibility that considerable numbers of persons might be involved, it is requested that the authorization be amended to include travel to the US at the discretion of the Ambassador. It is further requested that the authorization be extended to include 1949 fiscal year.³³

Sent Department 813, repeated Mukden 84, Tientsin 66, Peiping 98.

STUART

893.00/5-748: Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, May 7, 1948—6 p. m.
[Received May 9—2:46 a. m.]

195. Thus far no indication Communist superiority such as endanger Mukden in near future more than past offensives. Instead there is

³¹ See Department's telegram No. 697, May 7, 7 p. m., and Embassy's telegram No. 849, May 11, 4 p. m., vol. VII, pp. 815 and 817, respectively.

³² None printed.

³³ Additional instructions were transmitted to the Ambassador in China in airgram No. A-107, May 19, which stated in part: "Authority is extended to order or approve evacuation of officers and employees, their families, and their effects from posts in cities threatened by Communist occupation." (125.633/5-548)

likelihood Mukden may be subject of feint and then by-passed, and thereafter continue existence relative peace until it withers on vine, which process may go on for months or even year or more unless process accelerated by large troop defections, Government collapse, or Communist seizure North China. Government will eventually lose Mukden unless effective efforts made toward its retention, but date such loss too remote to be determined with any reasonable certainty at present. Therefore unable concur in Embassy opinion (Embtel May 5 to Dept 813, Mukden 84) time has come evacuate Foreign Service dependents this post. Review reports this office past half year reveal we have with only insignificant error forecasted events faithfully. Have no desire prejudice safety any American, and at same time reluctant cause premature or needless separation families. Changchun dependents evacuated May 23 year ago, but Changchun still stands. Military Attaché³⁴ withdrew dependents his establishments from Mukden in mid-January, and recommended to Embassy evacuation Mukden Foreign Service dependents mid- [apparent omission] but Mukden continues stand firm.

General Wei³⁵ more confident today his ability hold Mukden than any time since arrival mid-January; understand US Navy Tsingtao stands ready send evacuation planes Mukden within 24 hours upon request. Inasmuch Mukden airfields on edge city and well within defense perimeter, no reason believe collapse Mukden will be so rapid as prevent arranging necessary outbound air lift. Major Singlaub, ESD, and Assistant Military Attaché Major Bradley concur my opinion.

Department not yet authorized payment per diem or other separation allowance evacuated dependents. Vice Consul Abbott unable support 2 establishments, one here for self and another elsewhere for wife and child. He prefers waive evacuation his dependents if allowance for their maintenance not payable. I therefore recommend issuance order for evacuation Mukden dependents be withheld until need therefor apparent and requested by this office, or that blanket orders be issued now for execution on discretion this office in consultation with Embassy, and that no such order be mandatory unless allowances payable for separate maintenance of evacuees. In view dreariness present-day Mukden for anyone accustomed family life, I suggest that in making further assignments Mukden no married person be assigned here unless accompanied by family and continued presence family here appears reasonably certain.

WARD

³⁴ Brig. Gen. Robert H. Soule.

³⁵ Gen. Wei Li-huang, Commander in Chief of Northeast Bandit Suppression Forces.

393.1163/5-848 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, May 8, 1948.

[Received May 9—4:28 a. m.]

206. ReContel 188, April 17.³⁶ Following is English translation of Chinese language broadcast from North Shensi Hsin Hua (Communist) radio station May 7:

“Shansi-Chahar-Hopei dispatch” statement was made on 4th by spokesman of the Central Hopei Military Area Army Headquarters of the Chinese People’s Liberation Army with regard to request of Mr. Clubb, American Consul General at Peiping, who asked the local authorities at Sienhsien to assist return of 12 foreign Sisters of Catholic Mission of Society of Precious Blood at Sienhsien to their homeland. Statement said that it is customary policy of Liberation Army to protect religion of the people and their freedom in belief. Activities of all foreign missionaries will receive protection of democratic government if they obey the laws of policies of democratic government and do not participate in any work connected with American aid to bandit Chiang waging the civil war, or engage in other activities of intrigue in liberation areas. Security authorities at Sienhsien have discovered large scale international espionage activities going on in the Catholic Mission at Sienhsien, which is now receiving legal treatment. It was also found that aforementioned 12 Sisters are not in any way connected with those activities and they are now being protected in accordance with laws of the democratic government. Mr. Clubb, American Consul General at Peiping, requested that assistance be given them to leave Sienhsien and return to their country. Letters from Mr. Clubb to Sisters have been handed over to latter. Whether they wish to leave or not is entirely up to their own free decision.³⁷

In connection with this incident, letters have been dropped by an unidentified plane from our air territories without first notifying or receiving permission from Liberation Area Democratic Government. This is an illegal violation of sovereign air rights of liberation area. In times of war, such acts might easily have unfavorable results. We hereby especially lodge protest and arouse attention of American authorities notifying them that if in future they should wish to conduct any negotiations with us they should first of all contact us by sending messenger to our authorities by land and should not resort to former method of dropping letters without first receiving our approval.

(Shansi-Chahar-Hopei-dispatch) At about 10 o’clock on morning of 3rd, 3 letters were dropped in vicinity of Catholic Mission at Sienhsien by unidentified plane, which flew into central Hopei liberation area. One of the letters was addressed to Sienhsien Government by Mr. Clubb, American Consul General at Peiping. Its contents said

³⁶ Not printed.

³⁷ The 12 Sisters arrived safely in Tientsin on June 17, accompanied by Vice Consuls Gordon Tullock and Howard L. Boorman who were sent to escort them from Sienhsien. Both Chinese Nationalist and Communist authorities cooperated in arranging this successful operation.

that Canadian Home Mission of Society of Precious Blood has ordered notification of 12 Sisters, being 5 Canadians, 5 Americans, and 2 British, of Catholic Mission of Society of Precious Blood, located 3 Chinese li northwest of Sienhsien, to return to their country. It was also hoped that local authorities at Sienhsien would assist in their withdrawal from that locality and facilities would be given them in their return home. If the authorities should consent to this, then a reply should be broadcast by North Shensi Hsin Hua broadcasting station and all assistance would be deeply appreciated. Another letter contains confirmation of orders of the Superior General of Society of Precious Blood at St. Hyacinthe in Canada instructing Sisters to return to their country by Bishop Chao Chenshang of Catholic Mission at Sienhsien. A third letter was from Consul General Clubb to Catholic Mission at Sienhsien. These letters were picked up by people of that locality and handed over to Sienhsien Government. The letter to the Sienhsien Catholic Mission from Mr. Clubb has been given to former by the democratic government.

In view circumstances this item was broadcast on regular Chinese language news program. Text of item in English translation is being supplied local foreign press correspondents at 1 p. m. today for sake accuracy in regard to report. It is also being confirmed to them that such message as described in radio broadcast was in fact communicated by this office. No further release to press regarding matter is contemplated at this time. Matter press release is being coordinated with Tientsin office. Shanghai please forward American Consul, Hong Kong, by airmail.

Sent Department 206; repeated Nanking 362, Shanghai 195, Tientsin.

CLUBB

390.0015/5-1948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 19, 1948—5 p. m.

[Received May 20—5:57 a. m.]

905. [To Mukden:] Urtel May 7³⁸ to Secretary of State suggests you believe that Navy is ready to send evacuation planes to Mukden on '24 hours' notice. Navy informs us that is not the case and that it is desirable to have up to 1 week's notice though in an emergency evacuation could be handled on short notice.

In view of growing menace both in Manchuria and North China, and complicating factors elsewhere which may make evacuation at a later date exceeding difficult, Embassy urges you as strongly as possible to proceed at once with evacuation of women, children and non-

³⁸ Telegram No. 195, p. 825.

essential civilians, advising Embassy of numbers involved and proposed time schedule. Because of North China situation, Embassy proposes that all evacuees be moved south of the Yellow River.

Your concurrence, together with your plans would be appreciated at the earliest possible date in order that Embassy may coordinate with the Navy which has primary responsibility for evacuation in Manchuria.

Sent Mukden 94, repeated Secretary of State 905.

STUART

393.1115/5-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20, 1948—11 a. m.

[Received 11:03 p. m.]

911. With particular reference present situation North China, we believe as general policy women, children and nonessential persons should be evacuated from places likely to be occupied or isolated by Communists and that such evacuation should take place insofar as possible by normal commercial transport in advance of such time as emergency evacuation might become necessary. While it is possible Americans might suffer no serious difficulties under Communist occupation or isolation, yet danger of injuries incidental to battle, possible discrimination against or actual maltreatment of Americans by Communists and probable [hardships of isolation convince us that every effort should be] ³⁹ made to induce persons in above categories to leave danger points while still possible.

There are some indications that impending Communist offensive might by-pass Mukden and strike at Chinchow or even at points within Great Wall, thus posing serious threat to Peiping and Tientsin, and there is little evidence of effective Nationalist preparations to help [stop?] such an attack. Nanking political developments in past few weeks, as, for example, appointment Ku Chu-tung as chief of staff, do not increase our confidence that Government is willing and able adopt positive measures necessary for protection North China.

We have therefore concluded that general warning should be issued immediately to American women, children and nonessential persons in Peiping and Tientsin to leave those cities while commercial transportation still available. There are 636 Americans in Peiping and 200 Americans and alien dependents in Tientsin. More than half total number are women and children. Under present conditions shortage of transportation from Tientsin likely to delay actual departure for

³⁹ Bracketed insertion on basis of Embassy file copy of telegram.

considerable time after warning issued. Since recommendation to resident Americans to evacuate their dependents not likely to be fully effective unless Consular personnel do likewise, we propose to urge local officer to make necessary recommendation to this effect, accordance Deptel 697, May 7,⁴⁰ placing final responsibility on local officer. This situation illustrates awkwardness of dividing authority by vesting in Ambassador responsibility for determining when conditions warrant evacuation of Americans but leaving to local officer decision as to when his own staff and their dependents should withdraw (Embtel 849, May 11⁴¹). We intend to instruct Consulates to issue warning in manner so as to avoid causing undue alarm, and anticipate giving advance notice to Foreign Office. We would appreciate receiving soonest views of concerned officers and Department regarding issuance evacuation warning.

In order facilitate evacuation, Embassy is sending to Shanghai copies Tientsin's despatch 32, March 30 and letter May 11⁴² requesting steamship companies approached regarding possibility augmenting passenger service from Tientsin. We recommend no additional officers with families be assigned Peiping or Tientsin, unless willing to leave families behind, and would appreciate early reply to Embtel 813, May 5 requesting authority to order transportation families and effects to US. Consideration should also be given to removal of Peiping [Foreign Service] language school to place of relative safety. Nanking immediately suggests itself as most suitable from viewpoints of accessibility and language, but transfer school here would create serious housing problem.

Sent Department 911, repeated Peiping 109, Tientsin 88, Mukden 95, Shanghai 403.

STUART

125.633/5-2648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 26, 1948—11 a. m.

[Received May 26—9:33 a. m.]

946. Embassy appreciated comprehensive authorization in Deptel 765 May 20⁴³ and is proceeding to inform Consulates accordingly. Embassy has requested ConGen Mukden to proceed at once with plans for evacuation of dependents and non-essential personnel as well as shipment of effects of all personnel. With specific reference to

⁴⁰ Vol. VII, p. 815.

⁴¹ *Ibid.*, p. 817.

⁴² Neither printed.

⁴³ Vol. VII, p. 818.

Abbott,⁴⁴ Embassy believes he should urgently be granted statutory leave and subsequently transferred to another post in order that he may accompany his family. It would be appreciated if appropriate orders could be issued as soon as possible.

All American personnel in China who desire to avail themselves of this authorization are being informed they may pack and ship personal effects. Dependents of American personnel in Peiping and Tienston who desire to do so are being authorized to evacuate to either a point of safety in China or to the US.

STUART

893.00/5-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1948—6 p. m.

[Received May 27—8:37 a. m.]

962. ReEmbtel 911, May 20, 11 a. m. Our information indicates rapid deterioration of the military situation along Jehol-Hopeh border. Peiping-Tientsin railway being rapidly cut and Military Attaché believes Communists about to strike at Kailan mines. These factors combined with serious transportation shortage out of Tientsin lead us to conclude that evacuation warning in Peiping-Tientsin area should be put out as soon as possible. There will be additional delay in issuance of such a warning because of desirability to consult with and secure reactions of the Foreign Office. Embassy therefore requests authorization from Department as soon as possible to issue warning to Americans in Peiping-Tientsin area that they give serious consideration to evacuation unless they are prepared to live under Communist occupation or to be completely isolated in Peiping and Tientsin.

STUART

393.1115/5-2748 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, May 27, 1948—6 p. m.

[Received May 28—10:45 a. m.]

229. [To Nanking:] Would summarize my interpretation consensus of opinion as derived from conversations with Minister Clark, Consul Hinke, Military Attaché Soule and Asta Military Attaché Barrett⁴⁵ and as conveyed Consul General Cabot essentially as follows:

⁴⁴ Arthur S. Abbott, Vice Consul at Mukden.

⁴⁵ Col. David D. Barrett, Assistant Military Attaché.

(ReEmbtel 109, May 20 ⁴⁶) (1) No emergency military situation exists North China at this time which would require urgent evacuation either official dependents or other Americans. (2) Peiping-Tientsin area, however, may properly be considered to have reached phase one and therefore extension to local Americans of warning similar to but less strong than that previously sent Americans in outlying points east of Sian and north of Yangtze is now appropriate. (3) Such warning should be based primarily upon uncertainty maintenance communications and would propose that those persons desirous either of shipping effects or of themselves leaving before further deterioration military situation would be well advised to undertake matter now while removal by regular commercial facilities is still feasible. (4) That warning would be issued only after notification by Embassy to Foreign Office and would be couched in terms avoiding if feasible overt reference possible occupation Peiping by Communists. (5) Notification would preferably be paralleled by discussion of matter in conference with heads interested American organizations.

Reference Tientsin's 275, May 25 ⁴⁷ expresses opinion that issue projected warning (which is logical step from present position) will possibly cause some local popular excitement but that even so will possibly not result in any considerable exodus Americans from North China, many of whom plan to stay even under threat of Communist occupation. Believe, therefore, that provision for any substantial increase transportation facilities should come only after appearance real demand. Suggest that character of demand would become apparent shortly after issue of circular letter of warning and conference with heads of American organs.

ReContel 355, May 22, ⁴⁸ tentatively offer estimate that (1) there will develop no major danger for Peiping-Tientsin area until such time as present Communist forces this area have been strengthened by other units coming from either south (improbable) or north from Manchuria either through Jehol or via Chinchow corridor; (2) it will probably be some time before Nationalist position Jehol or Chinchow will be broken since Communists logically can be expected hold in Manchuria adequate troops to [deal] with moves by Nationalists in Mukden sector and it would also take some time to build up base for Communist advance against North China from Manchuria; (3) present warning will suffice to stimulate those persons desirous of leaving before Communists arrive to step up their plans; (4) Americans and other foreigners this area who choose remain behind even

⁴⁶ Sent to the Department as telegram No. 911, p. 829.

⁴⁷ Not printed.

⁴⁸ Not found in Department files.

in event there develops real threat of Communist occupation Tientsin-Peiping area should not (especially in view importance American political and economic interests in Asia) be pressed to [depart] contrary to their own judgment and thus leave field open to influence inimical to American interests (Contel 341, May 19⁴⁹). Note troubled conditions have been experienced by Americans in China with nearly constant regularity since 1911 and present conditions therefore are in good measure susceptible to their own judgment. Remark here that course military developments Manchuria where Changchun and Mukden still hold gives lesson for future North China. Note that with hypothetical increase Communist strength from north Fu Tso-yi⁵⁰ with reinforcements would probably be forced to withdraw west into Suiyuan and alternatively with possible reinforcement from Chinchow area would probably choose make East Hopeh and Great Wall main arena for battle rather than metropolitan centers Peiping-Tientsin. Granted that situation in respect communications from Peiping to Tientsin will probably continue deteriorate, it is nevertheless felt that present warning should be directed primarily to communications problem and to emphasize to concerned Americans that cannot depend upon emergency evacuation by American official transport in event they choose to leave later when communications are worse.

Sent Nanking 371, repeated SecState 229.

CLUBB

893.00/5-2748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 28, 1948—11 a. m.

799. In light of conditions reported Embtel 962 May 27 authorization hereby given to issue warning to American residents Peiping-Tientsin area along lines indicated.

LOVETT

893.00/5-2748 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 28, 1948—7 p. m.

809. It is assumed that after consultation with FonOff (Embtel 962 May 27 and Deptel 799 May 28) and before taking action indicated you will appropriately inform your British and French colleagues.

LOVETT

⁴⁹ Not printed.

⁵⁰ Commander in Chief of North China Bandit Suppression Forces; Deputy Director of Peiping Headquarters of Generalissimo Chiang Kai-shek.

893.00/5-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 29, 1948—noon.

[Received May 29—7:32 a. m.]

973. Current reports emanating from Ministry National Defense indicate Communists concentrating both sides Tsinpu⁵¹ r[ail-] road near vicinity of Tenghsien. Nationals have moved several divisions from Hsuchou to northern Kiangsu. Thus Communists probably have capability and intention isolating Tsinan. We believe all Americans remaining Tsinan should be advised depart at once unless prepared undergo isolation and possible siege.

Shanghai should repeat substance of above to heads of interested mission boards.

Sent Tsingtao 83, Shanghai 432.

STUART

893.00/5-2948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 29, 1948—1 p. m.

813. Previous authorization (urtel 973 May 29) concerning Tientsin-Peiping area extended to Tsinan area.

LOVETT

393.1115/6-148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 1, 1948—3 p. m.

[Received June 1—8:55 a. m.]

981. Vice Foreign Minister George Yeh was informed May 28 of our intention issue discreet warning to Americans Tientsin-Peiping area that situation seemed to warrant evacuation while normal transportation communications were still available of all those who were not willing to remain under possible Communist control. We said we did not anticipate early collapse of situation, but saw only continued deterioration and felt that common prudence required us to issue this warning at this time. Yeh requested that we delay warning until he could consult with other Ministries.

On May 31 he called us in and insisted that North China military situation is now same as it has been for past 4 or 5 months and added, with some strength, that no need for warning exists; that to issue

⁵¹ Tientsin-Pukow.

such a warning at this time would have "unfortunate psychological effect" and that the Government would consider issuance of such warning at this time as "highly inadvisable".

Our best information which we believe reliable indicates that military situation in north Hopei and south Jehol continues to deteriorate rapidly, Government forces showing no real will to fight, and we remain convinced that ordinary prudence and our responsibility in respect of Americans dictate the issuance of discreet warnings to Americans in Peiping-Tientsin to evacuate while normal means of transportation remain available. This warning would not affect, of course, those who plan to remain even though Communists should occupy the area. Before doing so, we should like Department's further instructions.

In meantime I am seeking interview with Generalissimo; will tell him of situation and of our intended action, and endeavor use situation as lever to prod him into action necessary to improve situation in north. I shall report further after my interview with Generalissimo though I am not sanguine that effort will produce desired result.

STUART

393.1115/6-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 2, 1948—6 p. m.

826. Min-Counselor Chi Emb⁵² called on Dir of FE⁵³ (urtel 981 June 1) indicating his Govt was disturbed over proposed warning to Amer citizens discussed by you with Chi FonOff. He stated that in opinion of his Govt milit situation did not warrant such action which it was feared would have unfortunate psychological effects particularly coming as it would just after formation of new Govt. He was informed proposed warning was not evacuation order but rather suggestion to non-essential Amers to leave north China while commercial transportation facilities still available. In Depts view there were two aspects of the problem which should be considered. One was question of fact of whether the milit situation in the north of China was deteriorating and two if so whether a genl warning issued now might not have less unfavorable repercussions than a more drastic action later. Dr. Tan was assured that the Emb was of course most desirous in carrying out its responsibilities to do whatever lay within its power to obviate any maleffects on the position of the ChiGovt

⁵² Shao-Hwa Tan.

⁵³ W. Walton Butterworth, Director of the Office of Far Eastern Affairs; memorandum of conversation not printed.

and it was with this in mind that Emb had approached the FonOff before taking any action.

Dr. Tan's attention was also called to the fact that AmEmbs and Cons in China have always had the authority and responsibility of decision respecting evacuation of Amer citizens from areas of danger and Dept at this distance and in these circumstances must leave action to Emb.

LOVETT

Nanking Embassy Files, F73, 300 Evacuation

The Consul General at Taipei (Krentz) to the Ambassador in China (Stuart)

TAIPEI, June 4, 1948.

SIR: I have the honor to refer to the Department's Secret Airgram of April 6, 1948, 8:40 a. m., directing the submission to the Chief of Mission of a set of emergency plans for integration with the Mission's general emergency plan for China. In this connection, reference is also made to your Circular Instruction No. 15 of May 26, 1948, and to your note of May 27, 1948, and enclosures.⁵⁴

It is assumed that in considering evacuation plans for mainland China the Embassy might propose the use of Taiwan as an intermediate evacuation point. This might of course be necessary in certain circumstances, but in the opinion of this office it should be avoided if at all possible. Taiwan has not yet recovered from war damage to buildings and the housing problem is truly acute even as considering the present population. The influx into Taiwan of large numbers of people from the mainland could not but lead to extreme hardship.

As far as the Americans already present in Taiwan are concerned, it is believed that the present status of Taiwan as a well-garrisoned **island makes it unlikely that movements on the mainland** would have immediate effect here. **As indicated in the paragraph above, it seems more probable that events on the mainland would lead to population movements to Taiwan.** There is already local evidence that an advance movement is taking place. Prices for the little available housing have recently advanced sharply.

The constant possibility remains that Taiwan could be plunged into civil commotion, but with the exception of two families and our military personnel Americans are believed to be concentrated in Taipei; detailed evacuation plans would therefore hardly appear to be warranted.

⁵⁴ None printed.

In view of the reasons brought out in the foregoing, it is hoped that the Embassy will not consider Taiwan as an intermediate evacuation point and unless the Embassy otherwise directs detailed emergency plans for Taiwan will not be prepared at this time.

Respectfully yours,

KENNETH C. KRENTZ

124.93/6-548: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1948—11 a. m.

[Received June 5—5:30 a. m.]

1011. It is entirely possible that military situation in North China may develop in manner which will result in isolation Peiping similar to present isolation Mukden. In other words, life within city may be safe for long time after surrounding country is controlled by Communists. Unlike Mukden, the air fields at Peiping are outside defense perimeter and their use could quite easily be denied by Communists. Also, evacuation to Tientsin could easily be denied by cutting the railway. Accordingly, in respect of Peiping, we believe earlier evacuation of women and children is necessary than was the case in Mukden. We continue of the conviction that officers with families should only be assigned to Peiping with understanding that their families might, in last analysis, be unable to accompany them or might be evacuated at an early date (Deptel 823, June 2, noon⁵⁵).

We have been in quandary regarding language school. Peiping is obviously most desirable situs, yet under Communist control we might lose for indefinite period valuable and greatly needed services of potential China service language officers. We had thought of treating students the same as other personnel and recommending that they be left in Peiping even though their families were evacuated, yet on more mature consideration we believe best interests of service would be served if language school were lifted bodily and established elsewhere should the necessity for evacuation of nonessential personnel from Peiping become evident. Our survey of alternatives leads us to the preliminary conclusion that Kunming is the logical place to which school should be evacuated in case of necessity. We are inquiring of Kunming and Peiping in this regard and will report further. In the meantime we see no reason why students mentioned Deptel 823 should not proceed as planned. Situation in North China is serious and is deteriorating, but we are not yet prepared to say that it is hopeless.

STUART

⁵⁵ Not printed.

125.7146/6-1448

*The Consul General at Peiping (Clubb) to the Ambassador in China (Stuart)*⁵⁶

No. 109

PEIPING, June 14, 1948.

SIR: I have the honor to refer to the Department's circular airgram of April 6, 1948 entitled "Plan for Emergency Action", and, in accordance with the instruction contained therein, to enclose in memorandum form ⁵⁷ a "Plan for the Evacuation of American citizens from Peiping, China". That plan was prepared in main by Consul Joseph I. Touchette in consultation with members of the office of the Assistant Military Attaché at Peiping.

The plan as drawn up is designed to cover general situations envisaged in prospect. It is almost certain that events in North China will take a form containing elements at present unforeseen and that therefore, in the execution of the plans forwarded herewith, some current adjustments will have to be made. It is to be noted in particular that it may be found desirable to render assistance to those nationals of friendly Powers who may be resident in Peiping and may desire to avail themselves of any facilities for evacuation in time of crisis. It is to be noted nevertheless that, as things stand at present, there is no considerable trepidation or strong move toward removal from Peiping of either American citizens or nationals of other Powers.

It may perhaps be helpful, in viewing the present plan, to note the present factors which seem to have pertinency :

(1) There are many imponderables in the Chinese scene in both the political and military situation and in respect to economic matters as well, and the shape of things to come is very difficult to forecast. For the present, however, a forecast of continued political deterioration seems warranted.

(2) Many of the troubles now present in China, and many of those now forecast, however, have happened in this country at other times before. Going back no farther than the beginning of the present century, it is requisite to note that there has been the Boxer Rebellion (and this office has thought it appropriate in formulating its hypotheses to include the possibility of the development of another anti-foreign movement in China), and the subsequent Chinese revolution itself. There have been long periods of trouble under the warlords and then, in 1932 and 1937, Japanese incursions into this country, which brought in their train considerable disorder. The present strife between the Communists and the Nationalists, in fact, has a history dating from 1927 to the present time—and of course the history of the Kuomintang-Chinese-Communist-Party relations goes back to 1924. If the present disorder has in it perhaps new elements, it has

⁵⁶ Copy transmitted to the Department by the Consul General at Peiping without covering despatch ; received July 6.

⁵⁷ Not printed.

in it many of the old elements as well, and it is felt appropriate to note that during all its periods of disorder foreigners were present in China carrying on their activities—with varying degrees of success.

(3) Something like the violence which attended the Boxer Rebellion and the Kuomintang-Communist excesses of 1927 may in fact happen again, but it seems generally agreed that the Chinese Communist armies in particular maintain a high degree of discipline and it seems quite possible that their occupation of urban centers, after the first fighting is over, may be without major threat of unrestrained violence. It is believed that it is well that the American official policy in present circumstances should be based upon the exercise of due care, but it is felt likewise that there should not be anticipation before the event of the exercise of unbridled Communist violence against foreigners—and particularly Americans—whom they may find in their path.

(4) It is felt that the above observation bears particular weight in view of the apparent circumstance that the Chinese Communists are at the present time encountering various difficulties in both economic and political fields as they continue on with their program. The farther they go the more difficulties they will probably encounter, this particularly as regards the Chinese urban population. The extension of their conquests, in short, will make probable the necessity that they should avoid extreme policies in the immediate future. That probability would of course benefit the foreign populations in the areas which might be made subject to their impact.

(5) In short, it is felt by this office that it is undesirable prematurely to start any time clock going in the anticipation of events which have not yet taken form. It is quite true that the political situation and the military situation in North China as well as in Manchuria continue to deteriorate and bear every promise of doing so in the months ahead. It is, however, true that in China political events frequently develop at a much slower tempo than in other countries. It is thought advisable at this time to communicate to American nationals either orally or by circular letter this Consulate General's estimate that the political and military situation in North China as well as in Manchuria is continuing to deteriorate and that, with particular reference to the question of communications, those persons who might desire to remove either effects or their persons from Peiping prior to the development of a truly critical political situation would be well advised to take appropriate steps to that end while regular commercial transportation facilities are still available. This warning, in short, should at this stage be tied particularly, it is believed, to the problem of communications. It will be noted that this office has not proposed in its memorandum that anything resembling a mandatory evacuation should be undertaken under existing conditions, either for staff personnel, their dependents, or American nationals generally.

It is to be remarked, of course, that in these circumstances the evolution of a perfect plan is infeasible from the practical point of view. It will probably be found necessary, as time goes on, to make recommendations for new, at present unforeseen, action. This Consulate

General will not fail to follow the situation closely and to make appropriate recommendations to the Embassy and the Department as the situation develops.

Very truly yours,

O. EDMUND CLUBB

124.936/6-1748 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1948—2 p. m.

884. Question possible removal language school from Peiping to other China location (Embtel 1011, June 5) has also received Dept's careful consideration. For reasons given below such move believed impractical and undesirable:

(1) Peiping locale ideal for study Chinese because (a) housing and school facilities adequate; (b) entire population speaks officially accepted Chinese dialect; (c) supply of good tutors unlimited. (If school were removed would be necessary take adequate number tutors who would undoubtedly be loath leave without families accompanying.)

(2) Location of suitable housing facilities for students, director, tutors and families in any other China city would present formidable difficulties.

(3) Transportation of persons mentioned in (2), together with household effects, school equipment, books, etc., would tie up excessive number aircraft at time when planes may be urgently needed evacuate dependents and non-essential personnel.

(4) As language school (like USIS) integral part of ConGen, Dept sees no reason why it should be separated therefrom in event Comm control Peiping appears inevitable. At such time language students might prove extremely valuable in assisting in evacuation procedure women children and subsequently in providing additional eyes ears during period Comm control while improving language facility. Moreover Dept believes Emb's concern lest services potential Chinese language officers be lost for "indefinite period" not entirely warranted and Dept cannot assume that in event of Comm capture Peiping it could not find means of arranging within reasonable period for evacuation such personnel.

It is obviously desirable to look into possibility removal of school to Kunming and Dept would appreciate receiving detailed info including cost, housing facilities, relocation tutors, etc.⁵⁸ Based on info presently available, however, Dept of opinion language school should remain Peiping and continue functioning on same basis as ConGen unless future events areas overrun by Comms show such course action to be inadvisable. (Sent Nanking as 884, repeated Peiping as 102.)

MARSHALL

⁵⁸ This information was sent to the Department in Embassy's telegram No. 1394, July 30, 6 p. m., not printed.

393.1115/7-2648

*Memorandum by the Chief of the Division of Chinese Affairs
(Sprouse) to the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] July 26, 1948.

Subject: Status of Plans for Protection of American Nationals and
Evacuation of American Nationals and other Potential Evacuees
from Areas in China

Referring to your memorandum of July 22⁵⁹ on the above subject, the present status of plans for the protection and evacuation of American nationals in China is as follows:

ComNavWesPac, in coordination with the Embassy in Nanking, has prepared Operation Plan No. 103, a copy of which was sent to the Department with the Embassy's despatch No. 217, May 6, 1948.⁶⁰ This plan, which supersedes Operation Plans Nos. 105-47 and 104-47,⁵⁹ which were unacceptable to the Embassy, "sets forth the action to be taken by all U. S. Forces in China in the event of local emergencies requiring the protection of lives and property but not involving war with a third power." With respect to the revised plan, the Embassy states that it "meets our requirement that the Ambassador should have the authority to determine when a state of emergency exists which requires the plan's implementation, and when an emergency ceases to exist."

Pursuant to the instructions set forth in the Department's Circular Airgram dated April 6, 1948, entitled "Plans for Emergency Action", each post in China is to prepare a local emergency security plan for the protection and evacuation of American nationals from its consular district. These plans are to be sent to the Embassy for integration, and the Embassy is to submit to the Department an integrated plan. In addition, copies of the plans for each post are to be submitted to the Department. To date the Department has received local plans from only Tientsin and Peiping.⁶⁰ No integrated plan has yet been received.

With reference to the local plans, the Embassy has stated that they are to be prepared by the consular offices in coordination with the various local military and naval commanders and then submitted to ComNavWesPac for coordination with the Master Plan. Both Tientsin's and Peiping's plans were so prepared. We have no knowledge that the local plans have been either received by ComNavWesPac or coordinated by it with the Master Plan. Both the Embassy and

⁵⁹ Not found in Department files.

⁶⁰ Neither printed.

the Consulate General at Shanghai have stated in communications that their local plans are in the process of preparation. It appears that neither the Embassy nor Admiral Badger is concerned over the circumstance that all of the consular offices have not yet completed their emergency plans, for in the Embassy's despatch No. 217, May 6 (transmitting Operation Plan No. 103) it is stated: "We have been informed by Admiral Badger that preliminary planning between responsible Commanders and local officials has progressed so that there is thorough cognizance of requirements in an emergency, and that, therefore, the temporary lack of local plans on paper is not cause for concern." In this connection, DS ⁶² has informed us that no deadline was set for the submission of the plans to the Department and that it had not expected that even the first of the plans would come in before the first of July.

With respect to the submission of the evacuation plans for China to SANACC, conversations with Colonel Field, Secretary of SANACC, and with others in the SANACC office have established the fact that the question of plans for the evacuation of American nationals from China has never been presented to SANACC. It appears that it was the intention that the matter be referred to SANACC at such time as a coordinated plan and the Embassy's comments thereon are received from the field.

Presumably it is still considered desirable that the matter be presented to SANACC for its consideration. With a view to doing so and to ascertaining that all plans are in readiness for any emergency, we are preparing a telegram to the Embassy requesting a status report by telegram and the early submission of the local emergency plans and the integrated plan.

124.936/7-2848 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 28, 1948—8 p. m.

1083. Dept has received copy Operation Plan 103 (Embdesp 217 May 6) and copies local emergency plans Peiping and Tientsin.⁶³ Prior submission protection and evacuation question for consideration SANACC, Dept desires receive copies local plans all posts as well as integrated plan (Dept Cirair Apr 6, Para 5). Pls report present status these plans and approximate dates completion and forwarding Dept.

MARSHALL

⁶² Division of Protective Services.

⁶³ None printed.

124.936/8-448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 4, 1948—6 p. m.

[Received August 4—6:32 a. m.]

1432. We are querying consular posts for information requested Deptel 1083 of 28 July and will report replies received. Department will appreciate that chaotic condition this area, disruption normal communications facilities, necessity coordinating planning with ComNav-WesPac and AAG,⁶⁴ necessity depending on those agencies for transportation and other logistic support for evacuation tremendously complicates work of emergency planning by the very limited staff at this post.

STUART

393.1115/8-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 13, 1948—6 p. m.

[Received August 13—10:09 a. m.]

1509. ReDeptel 101, January 22. Number Americans critical areas, China, as of August is as follows:

Mukden 21
Tientsin 168
Chahar 2
Peiping 633
Hopei (outside Peiping
and Tientsin) 18
Suiyuan 11

Shensi 4
Kansu 43
Hupeh 294
Shantung (outside
Tsingtao) 9
Shensi 29
Honan 10.

STUART

Nanking Embassy Files, Lot 55F174, Evacuation and Emergency Planning

The Ambassador in China (Stuart) to Consular Officers in China

No. 30

NANKING, September 15, 1948.

SIRS: Reference is made to the Embassy's secret circular telegram of May 26, 1948, 10 AM⁶⁵ concerning evacuation of American personnel and/or effects from all posts in China.

Numbered paragraph one of that telegram, according to instructions from the Department, is hereby amended in the following sense:

The authority of the Ambassador on evacuation does not extend to ordering American citizens other than Government employees to evac-

⁶⁴ Army Advisory Group in China.⁶⁵ Not printed.

uate any given city or area, but only to advising such evacuation. In the case of dependents of officers and employees, the Ambassador may issue travel orders which are authorizations for encumbering Government funds and the Department should be notified by T. M.⁶⁶ of any travel authorized. As in the case of other private citizens not in Government employ, dependents can disregard the warning to evacuate and are not compelled to take advantage of the opportunity afforded. The decision of dependents to refrain from evacuating will not be reflected adversely in the Department's personnel records, but persons who decide to disregard the warning should take this step only with full knowledge of the possibilities inherent in the situation after assuming full responsibility for such action.

Very truly yours,

For the Ambassador:
LEWIS CLARK
Minister-Counselor

893.01/10-148

Memorandum by the Assistant Chief of the Division of Chinese Affairs (Freeman) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] October 1, 1948.

In a broadcast directed particularly to the populaces of Changchun, Mukden, Chinchow and Chengteh, the Harbin radio announced eight principles governing occupation of new areas by Communist forces. Principle 6 regarding the treatment of foreign consulates is of particular interest and is quoted in full:

"6. Foreign consulates, missions and their personnel as well as foreign nationals and their property will be given protection without discrimination, provided they obey the laws decreed by the Democratic Government and carry on no destructive activities, or do not harbor war criminals or persons who engage in destructive activities."

A summary of the other principles is as follows:

Land and property of people of all classes will be respected; privately owned industrial and commercial establishments will be protected from violence and permitted to function; industrial and commercial enterprises owned by Kmt Government will be taken over, but private capital invested in such enterprises will not be confiscated; public installations, religious and charitable institutions will not be destroyed; personnel should continue their normal activities; personnel of Kmt provincial, municipal and prefectural governments will not be placed under arrest except in case of resistance or destructive activities; officers and men of Kmt Armed Forces who surrender their

⁶⁶ Travel message.

arms will not be molested; and circulation of Nationalist currency will be suspended immediately in favor of Northeast liberated area notes.

A similar announcement was made by the Communists during the attack on Tsinan. Specific direction of this broadcast to citizens of Mukden, Changchun, Chengteh and Chinchow may indicate Communist intentions to initiate offensives against those cities in the near future.

893.00/10-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1948—2 p. m.

[Received October 2—6 : 36 a. m.]

1821. In view deteriorating military situation North China (ourtel 1807, September 30 ⁶⁷) we feel it desirable consider future plans Peiping language school. As previously reported, Peiping becomes unsuitable as site for school when threatened by Communists and also under Communist occupation. Considerations of transportation, housing shortage and lack of qualified teachers make movement school elsewhere in China inadvisable. For these reasons should the Communist threat to Peiping develop further as now seems likely we would strongly recommend removal of school to some point in continental US. Given fact of presence of dependents of officers attending school and their possession considerable amounts personal belongings we believe this movement should take place at same time we issue initial warning to American residents North China to evacuate while normal means transportation available.

We have informed Military Attaché our views this matter. He intends take parallel action Army language school. Concurrence of Department requested.

Sent Department 1821, repeated Peiping 172.

STUART

123 Stuart, J. Leighton : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 4, 1948—6 p. m.

[Received October 5—12 : 23 a. m.]

1832. Carrying out a long planned and somewhat delayed visit to Consulates and American communities in Tientsin and Peiping, Ambassador left Nanking this morning for a 10-day visit to North

⁶⁷ Vol. VII, p. 477.

China.⁶⁸ This has caused usual speculation in vernacular press, more sensational of which reports that he is traveling on a special "mission" and that he is conferring with local American residents in attempt to afford adequate protection for life, property, consular staff and American residents that area in face of possible emergency.

STUART

811.3393/10-848 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 8, 1948—11 a. m.

[Received October 8—2:18 a. m.]

281. In view potentialities military situation, I recommend Embassy request Admiral Badger arrange schedule of LST's visiting Tientsin so that if possible there will always be a vessel in port. Hitherto there has usually been an interval of several days between vessels, but for time being it would be advisable as precautionary measure to have no interval between vessels. This should cause no particular comment as LST's have been here so much of the time during past few months.

Sent Nanking 507; repeated Department 281; Peiping.

SMYTH

393.0015/10-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 9, 1948—6 p. m.

[Received October 9—5:55 a. m.]

1877. ComNavWesPac, through ConGen Tsingtao, requests our approval his sending ship [to] Chefoo remove 42 foreign nationals endangered there by planned evacuation by Nationalist garrison that port which is to be completed by October 12. ConGen will send Consul Strong⁶⁹ and Chinese assistant. No American naval personnel to go ashore except observer. Evacuation ship should reach Chefoo by noon October 10.

Preponderance potential evacuees are French. French Ambassador, on being informed of situation, requests us inform ComNavWesPac

⁶⁸ In his telegram No. 1805, September 30, 5 p. m., the Ambassador stated: "Present decision is that I will, on forthcoming trip Tientsin and Peiping, discreetly inform Americans with whom I come in contact of Embassy's concern over military deterioration North China and of my belief that it may soon be advisable to issue evacuation warning." (393.1115/9-3048)

⁶⁹ Robert C. Strong.

of his gratitude providing opportunity for evacuation his nationals. We have informed ConGen Tsingtao of our approval of ComNav-WesPac proposal, stating, "since this is on purely humanitarian basis and no American interests directly involved, utmost caution must be used avoid becoming involved in untoward incident".

Since Chinese gunboat also proceeding Chefoo and since Communists are in vicinity of port, possibility exists that evacuation may take place under fire. However, we feel humanitarian considerations are sufficiently weighty to justify this risk.

STUART

393.1163/10-1148 : Telegram

The Consul General at Tsingtao (Turner) to the Secretary of State

TSINGTAO, October 11, 1948—midnight.

[Received October 11—11:40 a. m.]

156. Local missionary informs me that Christian Chinese long known to him arrived Tsingtao yesterday having left Tsinan October 2, bringing first authentic news of American community there. (Recent press report of welfare was apparently unfounded.)

All 8 Americans unharmed and well. Were courteously treated by Communist forces, promised food and urged to continue teaching. Communists instructed all schools to remain open and permit religious liberty. Was some talk of "down with US imperialism" but no hostility toward individuals. New mayor is graduate Mission School.

Cheeloo University practically unharmed. Hospital functioning as usual. Destruction of city estimated about 30 percent. Fires still burning when informant left. Hardly building in old city left undamaged.

People delighted to welcome Communists as relief from Nationalists who had alienated them by excesses and corruption. Communist soldiers well-behaved and well-disciplined and practically no irregular conduct. Wu Hu-wen popularly regarded as hero rather than traitor. Two of the 7 big flour mills destroyed. Money pegged at 1 gold yuan to 2,000 *peihei*. Flour selling at 25 Gy on October 2. Electric power and water restored September 30. In passing through Weih sien informant saw Russian in Chinese clothes. City was orderly. Busses and trains running, and prices steady.

Department please inform Board Presbyterian Foreign Missions, 156 5th Avenue, New York, of pertinent portions.

Sent Nanking 291, repeated Department 156.

TURNER

II. OFFICIAL EMERGENCY WARNINGS; EVACUATION OF AMERICAN CIVILIANS AND DEPENDENTS OF AMERICAN OFFICIALS; PROVISIONS FOR EMERGENCY PROTECTION (OCTOBER 13-DECEMBER 31)

393.1115/10-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 13, 1948—11 a. m.

[Received October 13—6:04 a. m.]

1896. During Ambassador's visit North China (see mytel 1832, October 4⁷⁰), he has been telling American citizens in Peiping-Tientsin area that time may have come when they should give serious consideration to leaving while commercial facilities still available for orderly exit with their effects from North China. However, with the concerted Communist attacks on Liaoyang corridor and imminent fall Chinchow, we feel Tientsin and Peiping are seriously threatened and time is fast approaching for more formal warning from Consulate Generals those cities to American citizens to leave threatened areas while commercial facilities still exist. Our military advisors feel should Chinchow fall, we may have period of 4 weeks before Tientsin and Peiping become object of Communist attack. Unless, therefore, we are instructed to the contrary, we plan upon the fall of Chinchow or other comparable development in present fighting to advise Consulate Generals at Peiping and Tientsin issue formal warning to all American citizens remaining their consular districts to leave while normal facilities are still available.

We have already advised Acting Foreign Minister of Ambassador's action and we will, of course, inform Foreign Minister⁷¹ prior advising Consuls in north to issue formal warning. We realize the unhappy effects this action on our part may have on military and economic situation of Government but feel that our responsibility to American nationals in threatened areas will not permit us to postpone formal warning for which many of them are waiting beyond another significant military reverse for national armies in north. (See ourtel 1821, October 2,⁷⁰ repeated Peiping 172, regarding language school Peiping.)

Isolated position Tsingtao and presence US Navy there creates somewhat different problem and we have advised Consul General use his own judgment regarding timing of formal warning to Americans residing Tsingtao (Consul General, Tsingtao, please pass ComNav-WesPac⁷²).

Sent Department, repeated Peiping 179, Tientsin 164, Tsingtao 154.

STUART

⁷⁰ *Ante*, p. 845.

⁷¹ Wang Shih-chieh.

⁷² Commander, Naval Forces, Western Pacific (Badger).

393.0015/10-1148 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*NANKING, October 11 [13⁹], 1948—noon.

[Received October 13—7:05 a. m.]

292 [*sic*]. Herewith repeat of Tsingtao's 292 to Embassy October 11, noon.

[“]USN destroyer *Higbee* departed Tsingtao 6 p. m., October 9 for Chefoo to evacuate foreigners. Arrived off Chefoo 6 a. m., October 10. Strong and 1 naval officer went ashore with 4 enlisted men without arms who established visual signal station for communication with destroyer. City in confusion, many officials having departed October 9 during what was understood to have been general panic probably resulting from arrival at least 7 ships for evacuation troops. All shops closed and boarded up. Mayor apparently has been instructed to be last to leave with his top subordinates. He has completely isolated himself from public. Police still functioning and with aid of soldiers are keeping best order possible and preventing violence. Harbor area packed with large numbers persons seeking water transportation. Sino Navy has 3 vessels Chefoo to take off officials, all students who wish to leave and any other civilians who can be accommodated. One ship to proceed Chinwangtao which Sino Navy intends hold, other 2 ships to Tsingtao. Vice Admiral Kwei,⁷³ CinC Sino Navy, at Chefoo in cruiser *Chungking* to supervise this portion of evacuation. Commanding General, Chefoo, on October 9th to calm people placed printed proclamations about city stating he had received telegram from Nanking ordering him to remain Chefoo and defend city. Effect only temporary. Despite excitement of people, no evidence whatsoever at any time of anti-foreign feeling on part civilians or military.

Latter were uniformly courteous on all occasions. To avoid misunderstandings two small boats from USS *Higbee* came alongside dock only when loading passengers and cargo designated by Strong and naval officer from ashore. No incident of untoward nature during trip. Although Communists are actively attacking around Chefoo perimeter, no firing is audible within city. CAF on October 10 sent at least three flights of two fighters each which bombed and strafed Communists. These actions observed from *Higbee*.

Strong and naval officer personally interviewed every foreigner known to be at Chefoo. Only 10 of some 38 persons made decision evacuate. Of these 10, 4 were nuns of French hospital, 4 German civilians, 1 Greek and 1 Italian civilians. With prior consent ComNavWesPac, 4 Chinese nuns from French hospital were embarked on *Higbee*. Eight Chinese Catholic priests and 8 Chinese Catholic Mission girl students were with written consent Admiral Kwei placed aboard Chinese warship from *Higbee*'s boats. Very few civilian Chinese requested passage on US naval vessel. These were politely refused and simultaneously told of presence of Chinese vessel for evacuation Chinese civilians.

⁷³ Vice Adm. Yung-ching Kwei, Commander in Chief of the Chinese Navy.

Higbee departed Chefoo 6 p. m. October 10, arrived Tsingtao 8:30 a. m., October 11. All 14 evacuees transported to local Catholic Mission which assisting civilians contact friends and relief agencies. Signed Turner."

STUART

393.1115/10-1448: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1948—noon.

[Received October 14—5:59 a. m.]

1906. It is our understanding that only Ambassador or his designated representative has authority determine when conditions exist in China which call for implementation emergency evacuation procedures involving employment American Armed Forces to assist in evacuation. In exchange of communications with Embassy, ComNavWesPac has indicated his acceptance of this principle, and it is expressly stated in his plan 103, repeated Department under covering despatch No. 217, May 6.⁷⁵ (See also top secret Embtel 305 of February 16⁷⁶ and top secret Deptel 333 of March 3.⁷⁷)

In recent evacuation foreign nationals Chefoo by naval vessel from ComNavWesPac Command, we were informed by Tsingtao Contel "Admiral Badger is arranging send ship to Chefoo to evacuate 42 foreign nationals". Message further stated "Badger wants Embassy's *pro forma* approval of above". While we did not believe it desirable at that time to raise question as to whether ComNavWesPac required our definite, prior approval, for his course of action, we believe that his assumption that only our *pro forma* approval is required in such situations is without foundation.

At present time we can readily conceive occurrence civil disorders in larger metropolitan centers, or of rapid spread of hostilities to areas previously untroubled, both with little or no prior warning and which might call for implementation emergency evacuation plan. Since this plan as developed by ComNavWesPac, a copy of which is in hands of Department, provides for use of facilities of Armed Forces in accomplishing evacuation and provides for protection of American lives and property by force if required, it is entirely possible that in accomplishing evacuation our forces might become involved in armed clash with Chinese. In view of these circumstances, and believing that all possible precautions should be taken to avoid such clashes,

⁷⁵ Neither printed, but see telegram No. 779, April 30, noon, from the Ambassador in China, p. 823.

⁷⁶ *Ante*, p. 813.

⁷⁷ *Ante*, p. 815.

it is our feeling that no emergency evacuation, making use of the facilities of our Armed Forces, should be effected without prior authority from the Ambassador or his expressly delegated representative. In no case would this authority be granted until there should materialize a real threat to safety of American lives.

It is our belief that the Department may desire to consider this proposition and, if approval is received, take such steps as may be necessary to have it made eminently clear to responsible American military and naval officers in China that sole authority to determine time and place for implementing emergency evacuation plans resides in Ambassador or his delegated representative.

Department's comments and instructions regarding above are requested.

STUART

120.377/10-1448 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, October 14, 1948—3 p. m.
[Received October 15—12:37 a. m.]

364. ReEmbtel 172.⁷⁸ After consultation with director language school,⁷⁹ would invite attention [Emb to] Peiping previous [recommendation] (Contel 391, June 10 ⁸⁰) that there be given serious consideration to possibility continuing with language school at Peiping even in event Communist occupation. This office's judgement, Communist occupation would not indulge in action substantially restricted of indicated language study. Sollenberger points out removal of students to US would make necessary increased period of study in order they achieve same results and he expresses opinion further (basis conversations with local Chinese) that there seems now less reason than before (see Contel 407, June 30 ⁸⁰) to anticipate that Chinese tutors would be reluctant to continue work with American language students. He and Embassy are in agreement that should it be found desirable temporarily remove language school from Peiping, Formosa or Kunming instead of USA might well be considered as temporarily site. It is to be noted that removal of language school would be costly operation at best and that removal to Formosa (1) would be [less?] expensive, and (2) would give to students more suitable environment for study, thus possibly obviating necessity increasing period of study. Director recommends that in any event those students having studied

⁷⁸ Sent to the Department as telegram No. 1821, October 2, p. 845.

⁷⁹ Howard E. Sollenberger.

⁸⁰ Not printed.

more than 6 months at Peiping should remain here for purpose trying continue their studies even under Communist occupation. It would be our suggestion which we offer for consideration that all of present group remain Peiping since Consulate is remaining, with qualification that they might, of course, be withdrawn if it proves impossible in practice for them to continue with their studies as an experimental measure incorporating an economical calculated risk. Attention is invited to circumstance that should experience prove language study in Peiping impracticable under Communist control, new students might be held back in US at a new school and study program set up there to meet their requirements. Consulate General believes this program would be in accord with general intent Deptel 102, June 17.⁸¹

It is, of course, assumed that language officers, even as other Consular personnel, would be authorized evacuate their dependents as well as effects should they so choose when emergency situation develops.

Sent Nanking 554, repeated Department.

CLUBB

393.1115/10-1348 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 15, 1948—9 p. m.

1457. Dept assumes you will notify it as soon as you instruct Consulates to issue warning (your 1896, Oct 13) so that it will be in position to answer numerous inevitable press inquiries this regard. In informing Dept Emb should include text warning, specific reasons therefor and date and time of release. Dept also desires earliest info giving estimates ConGens Peiping Tientsin re probable percentage American residents who will act on formal warning to evacuate.

For Emb info, on receipt notification issuance formal warning evacuate north China, Dept will cease issuance passports to all persons proceeding that area other than Govt officials or in extraordinary cases.

LOVETT

893.00/10-1848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 18, 1948—5 p. m.

[Received October 18—9:09 a. m.]

1926. Altho Chinchow has fallen there is still slight possibility Government forces may change pattern of events in corridor (Deptel 1457, October 15). Accordingly we are deferring issuance warning

⁸¹ Sent to the Ambassador in China as telegram No. 884, p. 840.

until situation more clear. Should we become convinced that fighting that area has definitely gone against Government with no possibility redemption and that sole remaining uncertainty is when Communists will undertake occupy Tientsin-Peiping area, we plan issue following warning through Consulate Generals Tientsin-Peiping:

"Military situation North China appears to indicate that hostilities may spread to areas hitherto peaceful and that Communists may eventually occupy Tientsin-Peiping area. Accordingly American citizens unwilling remain under possible Communist jurisdiction should consider possible desirability evacuation at this time while normal transportation facilities are still available."

Peiping and Tientsin please comment regarding proposed warning.
Sent Department 1926, Peiping 184, Tientsin 170.

STUART

120.377/10-1948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 19, 1948—2 p. m.

[Received October 19—4:43 a. m.]

1933. In view belief Peiping ConGen that language teachers would be available that city under Communist control and other reasons advanced Peiping telegram 364, October 14 to Department, repeated Nanking 554, we are willing to accept his recommendations that language school be maintained Peiping at least for those students who have had more than 6 months' study. Dependents of student language officers would, however, be evacuated as other consular dependents if situation warrants. Should it prove impracticable continue school after Communists take over, advanced students should, we believe, be assigned to posts in free China where they are badly needed with prospect continuing their studies later date.

Sent Department 1933, repeated Peiping 187.

STUART

393.1115/10-1848: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 19, 1948—6 p. m.

1469. Dept opinion proposed text warning (your 1926, Oct. 18) unnecessarily explicit and may have unduly damaging effect Nationalist position north China. Fol[lowing] substitute phraseology recommended:

"Military situation north China appears to indicate that hostilities may spread to areas hitherto peaceful and that normal transportation facilities may be completely disrupted. Accordingly American citizens should consider desirability evacuation at this time while normal transportation facilities are still available."

LOVETT

393.1115/10-2048 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 20, 1948—3 p. m.

[Received October 20—9 a. m.]

292. Total Americans Tientsin now 177 (reEmbtel 170, October 18⁸²) of which 80 men, 79 women and 37 children, latter 13 are of Chinese or part Chinese race, of total 16 are FS personnel and 10 FS dependents, but not many businessmen (few have dependents) would leave if mild warning quoted reftel were issued in circumstances indicated. Nearly all consider presence here essential. Stronger warning and, in case of businessmen, graver situation would be needed to make majority leave. Some businessmen now express opinion they would take chance under Communists but qualify statement by saying it depends if Communists [are] Manchurian or "within-Wall" group; missionaries generally feel their work could not be carried on under Communist regime.

We favor issuance Embassy suggested warning but feel it should be followed by stronger warning upon further deterioration situation. Second warning should point out dangerous anti-American reaction which a policy of increased US military aid to Nationalist Government might have on communism.

When first warning issued, some may wish ship effects although not depart themselves. Therefore, arrangements should be made with US Navy to transport to Shanghai effects of Americans here and Peiping as inadequate commercial transport from Tientsin will prove bottleneck to evacuation of effects as well as persons.

Sent Nanking 532, repeated Department 292, Peiping.

SMYTH

893.00/10-2148 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 21, 1948—10 a. m.

[Received October 21—4:23 a. m.]

412. Inasmuch present movements both Government and Communist Forces indicate likelihood large battle taking place week to fortnight

⁸² Sent to the Department as telegram No. 1926, p. 852.

hence midway between Mukden and Chinchow, and should Government Forces suffer defeat or be by-passed by columns driving on Mukden, this city may be threatened with early capture. Therefore solicit Embassy assistance in arranging Marine airlift requested September 20 for Mukden supplies ex-Shanghai, Tsingtao and Peiping, begin October 26 at rate 2 planes daily so that planes will be available if needed evacuate personal effects and American women during critical period. Irrespective outcome forthcoming battle, we have most urgent need kerosene ex-Tsingtao for lighting and operation refrigerators and gasoline ex-Peiping for operation motor vehicles and radio station. Please keep informed of progress airlift arrangements.

Sent Nanking 557; repeated Department 412.

WARD

393.1115/10-2148: Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, October 21, 1948—2 p. m.
[Received October 21—8:34 a. m.]

372. ReEmbtel 184, October 18, 5 p. m.⁸³ Invite attention Embassy to estimate situation Contel 566, October 21⁸⁴ which estimate would seem in general accord with that given Embtel 179, October 13⁸⁵ (Tientsin by safehand).

Observe Americans residing east of Sian and north Yangtze were given warning of deteriorating situation early as last December (Embci-rtel December 29, 5 p. m.⁸⁶) that American military personnel Peiping have been instructed to pack and ship effects and personnel Consulate likewise alerted (Embci-rtel May 26⁸⁷). Since original warning to American citizens contemplated by Embassy was in nature of preliminary alert which would eliminate those unwilling remain under possible Communist jurisdiction [and] effect occupation [*evacuation?*] by normal commercial means, and in view circumstances (1) packing concerns Peiping are already overburdened with backlog, (2) shipping situation outward from Tientsin is already difficult and (3) both rail communications from Peiping, Tientsin and air from Peiping now subject interruption very short notice, this office believes our responsibility to American citizens fully warrants issuance now of proposed preliminary warning to Americans. Note possibility particularly political repercussions in US to detriment of services in event failure give ample formal warning.

Sent Nanking 567, repeated Department.

CLUBB

⁸³ Sent to the Department as telegram No. 1926, p. 852.

⁸⁴ Sent to the Department as telegram No. 371, vol. VII, p. 503.

⁸⁵ Sent to the Department as telegram No. 1896, p. 848.

⁸⁶ See airgram No. 1, January 2, from the Ambassador in China, p. 809.

⁸⁷ Not printed.

393.1115/10-2248 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 22, 1948—5 p. m.

[Received October 23—12:12 a. m.]

295. Estimate 50 Americans would leave (Deptel 1457 to Embassy⁸⁸) if mild warning proposed (Embtel 1926 to Department,⁸⁹ amended in Deptel 1469⁹⁰ to Embassy) issued. If stronger warning issued, estimate 120 evacuees. Total American community including FSS personnel 177.

Sent Department; repeated Nanking 538, Peiping.

SMYTH

393.1115/10-2348 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 23, 1948—10 a. m.

[Received October 23—3:25 a. m.]

296. [To Embassy:] Tight commercial shipping from Tientsin prompts ConGen repeat request (ourtel 532, October 20⁹¹) Embassy arrange with US Navy for US LSTs to accept at Tientsin for shipment to Tsingtao or Shanghai effects American citizens Tientsin and Peiping. Also if possible arrange transportation American citizens or their effects via Navy transport from Tsingtao to US. Alternative would be arrange US vessel call at Tsingtao pick up effects taken there by LSTs. Such arrangement would encourage and expedite departure Americans who, if unable send effects through present inadequate commercial channels, might not leave. Please advise soonest if arrangement feasible in order Americans informed.

Sent Nanking 540, repeated Department 296, Peiping.

SMYTH

393.1115/10-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 23, 1948—1 p. m.

[Received October 23—5:43 a. m.]

1980. [To Peiping:] We believe time has come when you should issue formal evacuation warning US citizens your district (Embtel 184, October 18 to Peiping, repeated Tientsin 170⁹²). In public

⁸⁸ October 15, 9 p. m., p. 852.⁸⁹ October 18, 5 p. m., p. 852.⁹⁰ October 19, 6 p. m., p. 853.⁹¹ Sent to the Department as telegram No. 292, p. 854.⁹² Sent to the Department as telegram No. 1926, p. 852.

notice you should use text recorded in Deptel 1469 to Nanking, repeated Peiping 183, Tientsin 195.⁹³ However, in private conversations, you may point out that anyone failing to leave while normal transportation facilities are available may find themselves under Communist jurisdiction as no emergency transportation facilities can be assured at any later date.

For purposes of coordination, Department's warning should be made public your district Tuesday, October 26, noon, Peiping standard time.

Re Embassy's secret circular instruction 30⁹⁴ I feel time has also come when you should give serious consideration to evacuation consular and other official dependents. Embassy will issue travel orders upon request for any dependents desiring to take present advantage of this opportunity to move to areas of greater safety in China or to return to the US.

Repeated Tsingtao for information only of Consulate General and ComNavWesPac, repeated Shanghai for Consulate General and Connors.⁹⁵

Sent Peiping 189, Tientsin 173; repeated Department, Tsingtao 161, Shanghai 975.

STUART

393.1115/10-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 23, 1948—1 p. m.

[Received October 23—3:05 a. m.]

1981. We have instructed Consulates Peiping, Tientsin to issue formal warning along lines Deptel 1469, October 19. Release date will be Tuesday, October 26, noon, Peiping standard time. We have requested Tientsin, Peiping to telegraph directly Department best estimate number Americans who will leave in response to warning (reDeptel 1457, October 15).

Although Department may wish to restrict its comments to press to bare statement that recent military developments in North China indicate capability of Communists to concentrate large forces against Peiping, Tientsin area, with resulting increased threat to that area, facts of matter are that fall of Tsinan has released Communist troops for attack northward to Tientsin, Peiping area; that fall of Changchun has released large forces to increase threat to Mukden and corridor with result there is little prospect Nationalist forces can hold

⁹³ October 19, 6 p. m., p. 853.

⁹⁴ September 15, p. 843.

⁹⁵ W. Bradley Connors, Consul and Acting Public Affairs Officer at Shanghai.

corridor; that fall of Taiyuan is imminent, releasing still further Communist forces to be concentrated against Peiping-Tientsin area; and that Fu Tso-yi,⁹⁶ lacking reinforcements, is unlikely to attempt hold area under greatly increased pressure and may be expected to withdraw westward.

Repeated Shanghai for Connors.

Sent Department, repeated Tientsin 174, Peiping 190, Shanghai 976.

STUART

393.1115/10-2348 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart) ⁹⁷

WASHINGTON, October 23, 1948—5 p. m.

1484. Dept no objection issuance stronger warning than that recommended Deptel 1457 Oct 15 if in Emb opinion such warning would have effect convincing additional Americans of desirability evacuating as indicated Peiping's 567 Oct 21 ⁹⁸ and Tientsin's 538 Oct 22, ⁹⁹ both to Nanking. Dept in suggesting changes in Emb text was governed by following two considerations: (1) to avoid insofar as possible contributing to deterioration morale and Nationalist position north China and (2) to avoid possibility of adding to hazards of those Americans who would decide remain even under imminent Communist occupation.

Telegraph final text as far in advance of release as possible.

LOVETT

393.1115/10-2448 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 24, 1948—3 p. m.

[Received October 24—5 : 46 a. m.]

1984. With reference Deptel 1484, October 23, repeated Peiping 188 and Tientsin 197, we feel Embtel October 23 sent Peiping 189 and Tientsin 173; repeated Department 1980 adequately meets situation.

Sent Department 1984, repeated Peiping 192, Tientsin 175.

STUART

⁹⁶ Commander in Chief, North China Bandit Suppression Forces.

⁹⁷ Repeated to the Consul General at Peiping on the same date as telegram No. 188.

⁹⁸ Sent to the Department as telegram No. 372, p. 855.

⁹⁹ Sent to the Department as telegram No. 295, p. 856.

393.1115/10-2448 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*¹

NANKING, October 24, 1948—7 p. m.

[Received October 24—11:21 a. m.]

1985. Having informed Chinese Government of proposed public warning Tuesday October 26 to Americans Peiping-Tientsin area, I have received following urgent message from Generalissimo² who is in Peiping actually directing counteroffensive Chinchow area.

“Personal to Ambassador Stuart from President Chiang Kai-shek. Having heard that you are going to withdraw your nationals from Peiping-Tientsin area and formally announce this in newspapers and realizing that this will not only have serious consequences on military situation but will also affect Chinese-American relationships, I earnestly hope that you may find it possible to delay such action. Furthermore, I can guarantee that the Peiping-Tientsin area is in no immediate danger. While I am staying here and the military operations are making progress, evacuation of Americans will do much harm to our cause. From now on my Government will pay special attention to their safety. If, in the future, it should seem necessary for them withdraw I will give you due warning. Even if it should be necessary for them to withdraw, do not for the time being announce this publicly.”

In view of this plea, I have instructed Consuls General [at] Peiping and Tientsin to defer issuance public warning until further advised. We do not believe few days' delay is vital. Nonetheless Consuls have been instructed to answer inquiries orally by warning envisaged.

Following advice our military experts, we are taking advantage of Generalissimo's plea to urge upon him that all troops now Mukden be immediately instructed fight their way inside Wall to North China. If this can be done, our experts believe there remains some slight possibility save North China. If this action is not taken immediately and improvement of situation is not evident, we can inform Generalissimo, [that] we can delay issuance warning no longer.

Department's approval this action requested.

Sent Department, repeated Peiping 194, Tientsin 177, Shanghai 979.

STUART

¹ Repeated in telegram No. TELMAR 98 for the Secretary of State, who was attending the third regular session of the General Assembly of the United Nations meeting in Paris.

² Chiang Kai-shek, President of the National Government of the Republic of China.

393.1115/10-2448 : Telegram

*The Acting Secretary of State to the Ambassador in China (Stuart)*³

WASHINGTON, October 24, 1948—8 p. m.

1485. Emb retains discretion and power re issuance public warning Embtel 1985. Dept does not dissent from delay authorized but points out that responsibility and onus must remain with Emb. Dept cautions Emb against binding its hands in any way by making such issuance dependent upon notification or advice of foreign officials. Matter contained penultimate para being referred Paris for information Secretary.

LOVETT

125.6336/10-2548 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 25, 1948—3 p. m.

[Received October 25—5:36 a. m.]

422. For Clark ⁴. Cessation air lifting supplies into Mukden 2 days ago plus other indications may be prelude to complete Government withdrawal from Mukden and until contrary indications prevail, I shall assume early Government abandonment this city. If air lift requested effective tomorrow (mytel 557, October 21, repeated Department 412) has not yet been implemented, I urge that it begin without delay. Picard ⁵ and McAllister, ⁶ now believed Nanking, should return soonest. Erickson, ⁷ now believed Shanghai, should also return. Understand Stokes ⁸ now in Shanghai hospital for fever diagnosis and he should return as soon as fit.

If abandonment Mukden contemplated, it is being carried out with knowledge only highest ranking military, even top flight civilian officials being kept in ignorance in view which my interpretation of indications should make it utmost secrecy. Even though my apprehensions may be groundless, I feel that situation so delicate as to warrant leaving as little as possible to chance.

Sent Nanking 572, repeated Department.

WARD

³ Repeated in telegram No. TELMAR 98 for the Secretary of State in Paris.

⁴ Lewis Clark, Minister-Counselor of Embassy in China.

⁵ Hugo C. Picard, code clerk at Mukden.

⁶ Capt. Edward L. McAllister, Assistant Military Attaché.

⁷ Elden Erickson, clerk at Mukden.

⁸ William N. Stokes, Vice Consul at Mukden.

393.1115/10-2648: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 26, 1948—9 a. m.

[Received October 26—2:20 a. m.]

1994. [To Peiping:] Since much Generalissimo's anxiety over our evacuation warning would seem to flow from public nature of proposed announcement, we suggest that in event formal warning this be accomplished by written notice mailed to each American your district including, of course, American press representatives. This would obviate necessity of public announcement by you to local press as such, at time of circulation of warning and thus meet to some extent Chinese wishes. (ReEmbels 194 Peiping, 177 Tientsin, 1985 Department, and 979 Shanghai October 24; also Tientsin telegram 542, October 24⁹).

Meanwhile you may consider desirable mimeograph and have ready for prompt despatch when required the written public warning following text Deptel 1469, repeated Peiping 183, Tientsin 195, October 19.

Reference last paragraph Tientsin's 542, we agree local mayors should be forewarned when time comes to dispatch circulars.

Sent Peiping 196, Tientsin 181, repeated Department, Shanghai for Connors 983.

STUART

393.1115/10-2648: Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, October 26, 1948.

[Received October 26—7:35 a. m.]

387. Re Tientsin's A-540, October 23,¹⁰ strongly support request that Embassy arrange transportation American citizens and effects Tientsin to Tsingtao or Shanghai, preferably latter. Noting standing instructions evidently contemplate providing nonemergency transport for foreign nationals, assume those same Navy ships would carry such other foreigners as might desire prefer travel at this date. These naturally been implicit in approach to Consular colleagues (reEmb-tel 186, October 19¹¹) understanding that nonemergency transport would become available result American arrangements. Colleagues deeply interested possibility arranging evacuation for some their nationals.

⁹ Latter not printed.¹⁰ Sent to the Department as telegram No. 296, p. 856.¹¹ Not printed.

Noting again that Tientsin harbor approach normally freezes about December 15, invite attention to Assistant Naval Attaché's report Taku bar now stands at 15 feet, that it is silting up at rate 1 foot per month, that LSTs draw 13 feet water and that December 15 therefore represents last practical date for evacuation by LST from Tientsin. Local American population deeply concerned recurrent developments and current departure AAG¹² dependents has stirred considerable comment locally. One American news correspondent has already informed Consulate will shortly be necessary write something on evacuation matter view current developments.

In accordance Deptel 189 [188?], October 2 [23?] ¹³ question of evacuation dependents being presented Consular personnel with suggestion those desirous departing on nonemergency basis should be prepared to do so between November 15 and December 1. Estimates number such dependents and foreigners who propose evacuate in face present situation will be ready by October 31. Despite circumstance that all local Americans have shown interest in present developments and various individuals have shown interest in obtaining transport facilities, it is obvious that no reasonably accurate estimate of proportion some 500 Americans proposing depart could be given without asking specific question. Since this office was instructed by Embassy (Embtel 191, October 23 ¹⁴) in this connection refrain from canvassing American citizens until warning might be sent them, however, no estimate such persons will be offered until appropriate action becomes possible. Would emphasize basic fact adequate shipping facilities are now not available even for those Americans and other foreigners who would be desirous of proceeding by normal commercial facilities and therefore strongly recommend arrangements be made for transport from Tientsin at some date or dates November 15 to December 1.

Sent Nanking 584, repeated Department 387 and Tientsin.

CLUBB

393.1115/10-2648: Telegram

The Secretary of State to the Acting Secretary of State

PARIS, October 26, 1948—1 p. m.
[Received October 26—8:08 a. m.]

MARTEL 86. Instructions to Stuart in TELMAR 100 ¹⁵ approved. As to TELMAR 98,¹⁶ Dr. Wang ¹⁷ appealed to me yesterday along lines of

¹² Army Advisory Group.

¹³ See footnote 97, p. 858.

¹⁴ Not printed.

¹⁵ Not printed; for text of instructions, see telegram No. 1488, *infra*.

¹⁶ See footnote 1, p. 859.

¹⁷ Wang Shih-chieh, Chinese Minister for Foreign Affairs, then in Paris.

Generalissimo's appeal reference American dependents. The issue here involves two factors, one the destructive effect on public of such an announcement and second, responsibilities for safety of American women and children. For this reason I do not entirely agree with placing of complete responsibility on Stuart as indicated in second sentence of TELMAR 98.¹⁸ We must share responsibility of decision. Stuart must judge degree of danger and we must judge demoralizing effect of such announcement.

MARSHALL

393.1115/10-2448: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 26, 1948—11 a. m.

1488. Urtel 1985 Oct 24 repeated Paris for info Secretary. Dept's instruction, with Secretary's concurrence, regarding action described fourth paragraph reftel, as follows:

Whereas under standing instructions it would be proper for Chief of JUSMAG¹⁹ to offer to Gimo on personal and confidential basis military advice such as that referred to in fourth paragraph your 1985 Oct 24, it is not desirable that you or Emb should so act. Accordingly you will seek means immediately to notify Gimo that action you have taken was a personal one undertaken as an old friend and without instructions from your Govt. You should indicate that upon receipt of notification by you of your action, your Govt indicated you should make clear the unofficial and personal character of this advice since it could not assume any responsibilities which might flow from the acceptance of this advice by the ChiGovt.

LOVETT

393.1115/10-2648

The Ambassador in China (Stuart) to the Secretary of State

No. 440

NANKING, October 26, 1948.

[Received November 12.]

The Ambassador has the honor to refer to the Department's Circular Airgram of April 6, 1948,²⁰ and to the Embassy's secret despatch No. 217 of May 6, 1948²¹ and to submit the following plan for emergency action for Nanking.

¹⁸ Apparently reference to second sentence of telegram No. 1485, October 24, 8 p. m., to the Ambassador in China, p. 860.

¹⁹ Maj. Gen. David G. Barr, Director of Joint U. S. Military Advisory Group.

²⁰ *Ante*, p. 816.

²¹ Not printed.

[Here follows detailed account of plan.]

In the event that the National Government of China has moved from Nanking, the principal officer of the Embassy will have accompanied the Chinese Government to the temporary capital. After Plan E becomes operative, and all military and non-Embassy civilians have been evacuated, Embassy personnel remaining in Nanking will thereafter function as a Consulate.

393.1115/10-2748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 27, 1948—11 a. m.

[Received October 27—3 : 31 a. m.]

2011. Regret we did not make ourselves clear in fourth paragraph our 1985, October 24 (Deptel 1488, October 26). Chief JUSMAG has previously on personal and confidential basis recommended Generalissimo withdrawal forces Mukden with instructions fight their way intramural China and we merely took advantage Generalissimo's plea to have chief JUSMAG renew his recommendations.

STUART

393.1115/10-2748 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 27, 1948—4 p. m.

[Received October 27—7 : 35 a. m.]

307. During past few days many Americans have asked for our views on evacuation and we have answered inquiries orally by warning envisaged in accordance Embtel 1985, October 24 to Department, repeated Tientsin 177. Many Americans here aware, from reports of travelers from Peiping, that AAG is leaving (Peiping's 584, October 26 to Embassy, 387 to Department). Local Chinese press today carried under Nanking dateline report that Americans in Tientsin and Peiping will be evacuated.

Americans here generally awaiting some formal warning before taking action. I, therefore, recommend that, in fairness to Americans, formal warning should not be too long delayed.

Sent Nanking 550, repeated Department 307, Shanghai 519 and Peiping.

SMYTH

393.1115/10-2748 : Telegram

*The Consul General at Peiping (Clubb) to the Secretary of State*PEIPING, October 27, 1948—5 p. m.
[Received October 27—8:33 a. m.]

396. Accord with instructions Embassy telegrams 193²² and 194, October 24,²³ Peiping is refraining from issuing written notice until explicitly instructed do so by Embassy or Department. Reference Embassy telegram 196,²⁴ invite attention to circumstance that matter will immediately become known in town when some 500 Americans are thus formally notified, that newspaper speculation will, of course, immediately follow, and perhaps giving restrained statement to press, in addition to providing American press representatives with copy notice as suggested Embassy telegram, would limit somewhat such speculation.

Understand British Consul General, Peiping, is warning British subjects tomorrow and French Consul General, now Nanking, proposes discuss matter with his Ambassador.²⁵

Sent Nanking 594, repeated Department 396.

CLUBB

893.00/10-2748 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*NANKING, October 27, 1948—5 p. m.
[Received October 28—1:29 a. m.]

2018. Our military advisers feel that withdrawal Communist columns from attack Hulutao back toward Mukden countering Nationalists' move to Yingkow may prolong period security Peiping-Tientsin area. (Embtel 1985, October 24, repeated Peiping 194, Tientsin 177.) Accordingly, we plan continue withhold warning for time being.

Sent Department, repeated Peiping 198, Tientsin 184.

STUART

893.00/10-2848 : Telegram

*The Consul General at Tientsin (Smyth) to the Secretary of State*TIENTSIN, October 28, 1948—11 a. m.
[Received October 28—12:44 a. m.]

309. If Embassy approves issuance restrained statements suggested Peiping telegram 594 to Embassy,²⁶ we suggest statement be prepared

²² Telegram No. 193, not printed.²³ Sent to the Department as telegram No. 1985, p. 859.²⁴ Sent to the Department as telegram No. 1994, October 26, 9 a. m., p. 861.²⁵ Text of British circular notification dated October 28 was quoted in telegram No. 412, October 30, 4 p. m., from the Consul General at Peiping (393.1115/-10-3048).²⁶ Sent to the Department as telegram No. 396, October 27, 5 p. m., above.

by Embassy and text sent Tientsin and Peiping for simultaneous release. Such action would preclude possible confusion arising from issuance respective offices of different statements.

Sent Nanking 552, repeated Department 309.

SMYTH

393.1115/10-2848 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, October 28, 1948—5 p. m.

[Received October 28—8:14 a. m.]

403. ReDeptel 1484, October 23 and Tientsin 309.²⁷ According Embtel 196, October 26,²⁸ this office's warning follows text Deptel 469 [1469].²⁹

It is proposed, unless contrary instructions are received, to notify concerned Americans by same communication that efforts are being made in absence adequate shipping facilities to arrange for sea transport from Tientsin between November 15 and December 1 and asking concerned Americans indicate whether they desire take advantage those facilities; this, of course, assuming such non-emergency warning will be issued by first indicated date.

Sent Department 403; repeated Nanking 599, Shanghai 413 and Tientsin.

CLUBB

393.1115/10-2848

Memorandum by the Director of the Office of Far Eastern Affairs (Butterworth) to the Acting Secretary of State

[WASHINGTON,] October 28, 1948.

Apropos of General Marshall's telegram to you no. MARTEL 86, October 26, and the various telegrams we have had from Nanking, Tientsin and Peiping regarding the evacuation of American citizens, I called up Mr. Blum of Mr. Forrestal's³⁰ office and asked him whether he could arrange for an evaluation of the military situation in the Tientsin-Peiping area in the light of this problem. I pointed out that the British were issuing a warning and that the French are expected to follow suit shortly. The most recent word from our Embassy indicates it was, on the advice of "our military advisers", planning to withhold warning for the time being.

²⁷ *Supra.*

²⁸ Sent to the Department as telegram No. 1994, p. 861.

²⁹ October 19, 6 p. m., p. 853.

³⁰ James Forrestal, Secretary of Defense.

I mentioned that we had a plethora of military advisers in China and they speak with more than one voice; that this was not necessarily a bad thing provided somebody brought them into harmony here. He agreed to see what he could do and let us have an informal estimate of the situation.

W. W[ALTON] B[UTTERWORTH]

§93.111/10-2848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1948—6 p. m.

[Received October 29—1 a. m.]

2029. In view generally deteriorating military situation North China, overcrowded transport facilities and critical food and housing shortage, we recommend in strongest terms that authorization for travel to that area, particularly Peiping and Tientsin, not be authorized for military or other US Government personnel or dependents except on official business or in unusual circumstances.

Sent Tokyo 98, sent Seoul 36, sent Manila 21, repeated Department.

STUART

393.1115/10-2948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 29, 1948—2 p. m.

[Received October 29—9:59 a. m.]

2033. [To Peiping and Tientsin:] In light unusually serious military defeats suffered by Nationalist forces Mukden area within past 48 hours, we are convinced formal warning Americans to evacuate your district should no longer be delayed. (ReEmbtel 189 to Peiping and 173 to Tientsin October 23, repeated Tsingtao 61 [161], Shanghai 975 and Department 1980 and Embtel 2018, October 27, to Department, repeated Peiping 198, Tientsin 184). Warning should be made public your district Monday November 1, 12 noon Peiping standard time, and issuance written notices as contemplated Embtel 196 to Peiping, repeated 181 Tientsin.³¹

We appreciate force Peiping's arguments regarding desirability making statement to press (Peiping's telegram 594, October 27, repeated Department 396, and Tientsin's 552, October 28, repeated Department 309), but in light of considerations set forth Embtel 196 to Peiping, 181 Tientsin, October 26, we are still of opinion press handout as such should be avoided. In response to any

³¹ Sent to the Department as telegram No. 1994, October 26, 9 a. m., p. 861.

inquiries from the press following receipt of warning notice, you may of course furnish inquirer with text of warning (see Deptel 1469, October 19, repeated Peiping 183, Tientsin 195). Text has been translated into Chinese here and is being telegraphed separately. It seems to us desirable that you do not go beyond the generalities of the warning in any statement you make to the press, although in any private conversations you may have with individual correspondents there would be no objections to elaboration of details for their background information only and not for attribution to you.

Repeated Tsingtao for information Consul General and ComNav-WesPac, repeated Shanghai for Consul General and Connors. Sent Peiping 200, sent Tientsin 186, repeated Tsingtao 174, Shanghai 1008, Department 2033.

STUART

393.1115/10-2948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 29, 1948—2 p. m.

[Received October 29—5:51 a. m.]

2034. Our immediately preceding telegram instructs Consulates Peiping, Tientsin to proceed issuance formal warning American citizens evacuate North China; date of warning to be November 1, noon Peiping time. Worsening military developments since mytel 1981, October 23; repeated Tientsin 174, Peiping 190, Shanghai 976, which compel us to issue warning without further delay regarding major battles fought west of Mukden last few days resulting in destruction several armies National Forces, leaving Mukden exposed to probable capture, occupation by Red Forces and leaving remaining National Forces in Anshan-Yingkow area in precarious position.³²

Sent Department; repeated Tientsin 187, Peiping 201, Shanghai for Connors 1009.

STUART

393.1115/10-2948: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, October 29, 1948—4 p. m.

[Received 5:09 p. m.]

311. News Government debacle in Manchuria (as pictured Mukden's 583, October 27 to Embassy³³) becoming known to Americans here

³² In a memorandum to the Acting Secretary of State on October 29, the Director of the Office of Far Eastern Affairs stated: "Immediately upon receipt of this telegram, I called up Mr. Blum of Mr. Forrestal's Office and advised him of its contents and told him that it would seem that we had no option but to go along with this. I indicated that if Secretary Forrestal had any comments we would be glad to receive them."

³³ Sent to the Department as telegram No. 432, vol. VII, p. 523.

through American pilots on Tientsin-Peiping shuttle. Pilots report today 3 commercial aviation companies operating out of Mukden in process evacuation. Feeling apprehension among American residents rising. Several have called at Consulate General [to] inquire regarding issuance warning. Impression obtained is that they deferring liquidation business and shipment effects until issuance formal warning.

China Merchants Steam [Navigation] Co. today published notice local press that all berths for November have been reserved, no more reservations being accepted. Other travel facilities getting tighter. In order give Americans opportunity liquidate interests and remove effects, Consulate General believes Embassy should defer no longer issuance proposed warning.

Sent Nanking 555, repeated Department 311, and Peiping.

SMYTH

393.0015/10-2948 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, October 29, 1948—4 p. m.

[Received October 30—2:03 a. m.]

410. For Minister.³⁴ Reur memorandum October 19³⁵ re tentative evacuation plan ComNavWesPac dated October 2, reference particularly concept indicated second paragraph that evacuation task unit would be built around one rifle company charged with establishing local defenses around field and protecting evacuees arriving at field, make following observations.

(1) West Field where operation is planned is presently under control Chinese military who all probability would not cede control American armed force.

(2) Cautious planning would make it fundamental and it is implicit in entire plan as presented that Peiping and area (including field) would still be securely in Nationalists' hands at time evacuation in which case Nationalist police and military protection would be adequate.

(3) In event contrary is case, it is obvious that (a) one rifle company would be unable provide safe operation airfield against hostile force equipped machine guns, mortars and artillery and (b) since as stated in plan there is no intention send armed forces into Peiping which is 7 miles from field. In event situation Peiping was already so critical that control of field itself was hazardous, travel of persons from/to airfield would hardly be feasible. Presence of rifle company in short would in all probability introduce unnecessary complication into situation, would not be able contribute substantially to stabiliza-

³⁴ Lewis Clark.

³⁵ Not printed.

tion of a deteriorated military situation Peiping and in event clash would possibly result serious embarrassment to US Government and very probably endanger (by retaliative Communist action) safety of at least those foreign Nationalists [*nationals?*] remaining Peiping who either had chosen in first instance remain or had been unable evacuate as result confusion and perils attending attempt evacuation in immediate presence hostile forces.

I recommend most strongly project for sending armed forces Peiping area connection projected operation be abandoned.

Sent Nanking 609, repeated Department, Tientsin and Tsingtao.

CLUBB

393.1115/10-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 30, 1948—9 a. m.

[Received October 30—12:17 a. m.]

2043. Reference Peiping 599, October 28.³⁶ ComNavWesPac has been queried as to cost, baggage allowance and similar details sea transport for those responding to initial evacuation warning. You will be informed these details soonest possible. Meanwhile at time warning issued you should indicate efforts being made provide sea transport and should ascertain soonest possible numbers intending take advantage this facility.

Sent Peiping 204, Tientsin 189; repeated Department 2043.

STUART

393.1115/11-148 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, November 1, 1948.

[Received November 1—4:16 a. m.]

313. Following notice issued by Consulate General to American citizens today.

"The military situation in North China appears to indicate that hostilities may spread to areas hitherto peaceful and that normal transportation facilities may be completely disrupted. Accordingly, American citizens should consider the desirability of evacuation at this time while normal transportation facilities are still available.

In view of the present limited accommodations for passengers who might desire to travel by sea from Tientsin, additional facilities for transportation to Tsingtao or to Shanghai are being arranged. It is contemplated that, as ice conditions may interfere with navigation

³⁶ Sent to the Department as telegram No. 403, p. 866.

of the *Hai Ho* about mid-December, such additional facilities for passage to Tsingtao or to Shanghai would be available between now and December 1, 1948. It is, therefore, requested that you inform this Consulate General whether you or any of your dependents would desire to avail themselves of such facilities from Tientsin."

Sent Nanking 558, repeated Department 313, Shanghai 523, Peiping and Tsingtao.

SMYTH

893.00/11-248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 2, 1948—4 p. m.

[Received November 2—5 : 19 a. m.]

2062. We found Admiral Badger fully prepared assist logistics evacuation JUSMAG dependents, our 2053, November 1.³⁷ That phase of problem should therefore be well in hand.

We plan, therefore, unless Department directs to contrary, to send each registered American Nanking consular district note of warning as follows with idea that copies would be available to press as of noon November 5 unless speculation aroused by current packing activities of JUSMAG dependents makes prior release seem desirable :

"Military developments in North China make it appear possible that hostilities may spread further south with the result that normal transportation facilities between Nanking and its environs and the sea may be disrupted. Also with the approach of winter and the increasingly acute shortage of food supplies and fuel those remaining in Nanking and its environs may be subjected to undue hardships.

Accordingly it is suggested that unless you have no [*a*] compelling reason to remain you consider the desirability of evacuation while normal transportation facilities remain available."

As the Hankow consular district has available an alternative exit via the Canton-Hankow Railway, we are not issuing a warning for that area for the time being ; likewise we feel that such a warning in Shanghai may be delayed somewhat. Unless conditions change, however, which we do not anticipate, we will plan issue a warning through the Hankow Consulate General possibly next week and one through Consulate General Shanghai shortly thereafter.³⁸ From a logistical point of view Admiral Badger has suggested a [staggering?] of the warnings.

STUART

³⁷ *Ante*, p. 332.

³⁸ These two consular districts were asked for comments in telegram No. 2070, November 3, from the Ambassador in China (393.1115/11-348).

893.00/11-248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 2, 1948—8 p. m.

1534. Your 2062 Nov 2. Although Dept concurred in desirability evacuating dependents JUSMAG, perceives no reason why formal warning to all Amer citizens Nanking area should be made precedent to such evacuation. Position of JUSMAG dependents as directly related with efforts US Govt advise ChiGovt on milit matters quite different from bulk Amer civilian residents majority of whom have many years residence China with missionary and educational institutions or business enterprises.

Question of issuing warning to all US citizens should be justifiable on own merits without ref to action being taken by armed services re evacuation their dependents and should be issued when Emb having benefit of info and advice of reps of Natl Military Estab in China decides situation calls for such action.

Question issuance warnings to Amer citizens Hankow and Shanghai should likewise be determined on basis developing situation and not related to evacuation milit dependents.

LOVETT

393.1115/11-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 3, 1948—3 p. m.

[Received November 3—3 : 32 a. m.]

2081. We have received urgent plea from Cabot that he be permitted issue warning to Americans Shanghai City simultaneously with that of Nanking and environs. (Embtel 1029, November 3, to Shanghai, repeated Department 2070 ³⁹). We of course accept his judgment and are instructing him to include Shanghai with his warning to American citizens in provinces of Anhwei and Kiangsu November 5.

Cabot adds in his message to us:

“I may add that I thoroughly concur with Embassy’s proposed action. Situation has reached point whereby I have been pondering for several days whether I should not appeal for action this sense.”

STUART

893.00/11-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 3, 1948—5 p. m.

[Received November 3—7 : 29 a. m.]

2086. Appreciated Department’s views expressed in its 1534, November 2 emphasizing differences in positions of JUSMAG dependents

³⁹ Not printed, but see footnote 38, p. 871.

and American civilian residents Nanking. Our decision, however, to warn American citizens to leave this area unless there were compelling reasons to the contrary (Embtel 2062, November 2) was result of careful consideration present political military situation and consultation with representatives all US military establishments China and while obviously related was not dependent upon JUSMAG decision to evacuate its dependents. Most recent competent US military advice is that battle for Hsuechow may begin within next few days and that Generalissimo is proceeding there to personally direct defense of that area. This latest intelligence confirms and strengthens our earlier belief that the time has come to issue formal warning American citizens this district and Shanghai this week. Consequently we are proceeding as planned, unless directed to the contrary.

STUART

393.1115/11-448 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 4, 1948—9 a. m.

[Received November 3—9:05 p. m.]

2312. Following is message Consul General plans issue for public information noon November 5:

"Military developments in North China make it appear possible that hostilities may spread further south, with the result that normal transportation facilities from Shanghai may be disrupted. Also, with the approach of winter and the increasingly acute shortage of food supplies and fuel, those remaining in Shanghai and its environs may be subjected to undue hardships.

Accordingly, it is suggested that unless you have compelling reason to remain, you consider the desirability of evacuation while normal transportation facilities remain available."

Embassy's approval of changes in message is requested.

Sent Nanking 1752; repeated Department 2312.

CABOT

393.0015/11-448 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 4, 1948—5 p. m.

1548. Dept has refrained from representing to Navy desirability of following course of action such as recommended by Clubb (Peiping's tel to Nanking 609, Oct 29⁴⁰) pending receipt statement from Emb action taken locally.

LOVETT

⁴⁰ Sent to the Department as telegram No. 410, p. 869.

393.1115/11-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 8, 1948—7 p. m.

[Received November 8—5 : 52 a. m.]

2137. Following is Hankow's 305, November 5 :

"We feel statement substantially the same as Embassy's should be released here about November 9 but at this time only for those parts of this district north of Yangtze and for those individuals and communities located close to south bank. We would as a special case advise the school at Kuling, some 30 American children will soon be released for vacation, that children whose families are in areas south should proceed without delay, but that those whose families are north of river should be kept at the school until plans and wishes of families are known. Does Embassy concur?"

Following is Embassy's reply thereto :

"Embassy concurs with your 305, November 5. Since presumably you cannot prepare warning now for November 9, Embassy suggests November 12, notifying Department. Embassy further suggests that you prepare warnings for other parts of your district to be issued when you believe normal communications are threatened. You are hereby authorized to issue such warnings without prior approval of Embassy. You should, however, notify both Embassy and Department."

STUART

393.0015/11-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 9, 1948—9 a. m.

[Received November 9—8 : 08 a. m.]

2140. [To Peiping:] Project sending Armed Forces Peiping area connection emergency evacuation, your 609, October 29, repeated Department 410, has been abandoned if ever actually contemplated. Your telegram was discussed with Admiral Badger who saw force your arguments and said intention had never been more than to send possibly a squad of Marines who might guard baggage overnight pending loading on planes.

Sent Peiping 220, repeated Department 2140.

STUART

393.1115/11-948 : Telegram

The Consul General at Hankow (Callanan) to the Secretary of State

HANKOW, November 9, 1948—5 p. m.

[Received November 9—5 : 41 a. m.]

133. Warning similar to Consulate General Shanghai sent to Americans today—this district north of and bordering on Yangtze.

CALLANAN

893.00/11-948 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, November 9, 1948—5 p. m.

[Received November 10—1 :53 a. m.]

444. Communist forces reported by press as having entered Hopei from Manchu[ria] (Contel 443, November 9 ⁴¹) presumably are only vanguard of larger force. In such event battle North China would be beginning (Embassy see Assistant Military Attaché telegram this date same subject). American newsman yesterday informed at Tangshan by CO, 87th Army (reorganized 208th Youth Division) that Lin Piao[’s] ⁴² main force was expected enter North China through Hsifengkow (Great Wall Pass north of Fengjun, Hopei).

Invite attention estimate Contel 420, November 2 ⁴³ that Nationalist position North China untenable. It seems entirely conceivable Fu after recent trip Nanking decided abandon previous decision to stabilize in North China and will withdraw. If he has decided withdraw he must do so quickly and recent activities his forces South Chahar may have been designed clear way for retreat. There are various indications none of which however definite that withdrawal is planned; example is sudden notification CAT ⁴⁴ personnel Peiping yesterday morning they and whole establishment must be ready move out tomorrow. High official recently home from Mukden informed me yesterday his opinion Fu would be unable maintain position Peiping-Tientsin.

Sent Department; repeated Nanking 653.

CLUBB

893.1115/11-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 9, 1948—6 p. m.

[Received November 9—9 :26 a. m.]

2149. [To Tsingtao:] General deterioration of the situation, plus fuel and food shortages, and for reasons which Admiral Badger will explain to you on his return, all appear to increase danger to Americans Tsingtao consular district. Accordingly, it is suggested you issue immediately warning to Americans your district along following lines:

“Military developments in North China make it appear possible that hostilities may spread to other areas hitherto peaceful, with result that

⁴¹ Not printed.

⁴² Commander in Chief of Chinese Communist armies from Manchuria.

⁴³ Vol. VII, p. 535.

⁴⁴ Civil Air Transport.

normal transportation facilities from Tsingtao may be disrupted. Also, with approach of winter and increasingly acute shortage of food supplies and fuel, those remaining in Tsingtao may be subjected to undue hardships.

Accordingly, it is suggested that unless you have compelling reason to remain you consider desirability of evacuation from Tsingtao while normal transportation facilities remain available".

Upon issuance by you of some such warning to Americans, Admiral Badger will plan to change hitherto permissive evacuation Navy dependents Tsingtao into directive requiring their departure in immediate future. Please advise action taken, repeating your message Department.

Sent Tsingtao 186, repeated Department 2149.

STUART

124.93/11-948 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 9, 1948—6 p. m.

[Received November 9—8:25 a. m.]

2152. [To Tokyo:] Because of very rapid deterioration military position of Chinese Government, there exists possibility of Communist assault on Nanking and certain other Chinese cities where there are consular offices. Under these conditions and if development hostilities in Nanking and certain other areas appears imminent, we believe it would prove desirable evacuate Embassy and certain consular dependents, official files and some personnel to point from which they could be readily returned when hostilities cease. Total number estimated at maximum 600 persons. We would appreciate soonest possible information as to whether these persons could be temporarily accommodated in Japan until their return to China feasible. While duration their stay difficult estimate, in all likelihood it would not exceed 2 or 3 months.

Sent Tokyo 106, repeated Department 2152.

STUART

125.6333/10-2948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

[Extract]

WASHINGTON, November 10, 1948—7 p. m.

1593. Your 2039, Oct 29, 1526, Aug 18⁴⁵ and Dept's A-107, May 19.⁴⁶ Following policy and procedure re evacuation alien employees,

⁴⁵ Neither printed.

⁴⁶ Not printed ; see footnote 33, p. 825.

families and effects from posts threatened by Communist occupation will govern until otherwise advised. In view (1) absence place in China where continued safety could be assured in event Govt falls, (2) shortage transportation and housing facilities, and (3) liberal treatment so far accorded alien and American staff ConGen Mukden, Dept strongly recommends Emb exert utmost caution in applying authority herein contained. In general Dept of opinion only non-Chinese alien personnel should be considered for emergency evacuation and then only if principal officer believes such action necessary protection safety or lives such employees or families. Chinese alien employees should in general be excluded from consideration except in extreme cases where principal officer believes safety or lives would be jeopardized under Communist occupation and change of locus would lessen danger. Emb should consider possibility that alien employees once evacuated from posts threatened by Communist occupation and later caught in another city by Communists would be in greater danger than if they had remained in original post. Emb should also note (Title I, pars. *b* and *c* below) Dept cannot assume continuing responsibility for employment or welfare evacuated aliens. No mass evacuation of aliens is contemplated by the Department.

LOVETT

393.1115/11-1148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 11, 1948—6 p. m.

[Received November 11—6:08 a. m.]

2386. I have today conferred with representatives of Pan American and Northwest Airlines and of American President and US Lines. We are agreed that sufficient people desire immediate evacuation to fill at least one passenger ship sent emergency basis. I recommend Department give urgent consideration to sending such a ship to Shanghai. I do not know whether this can be done in view of west coast shipping strike but feel due to emergency special arrangements might be made or alternatively a ship might be sent from east coast.

Failing such arrangements and in view of pertinent deterioration of military and political conditions, I believe that consideration should be given to orderly intermediate evacuation to points in Japan or other neighboring safe points. Pan American and Northwest representatives indicated they believed their companies would cooperate in running a shuttle service to such points.

Airlines point out there is insufficient gasoline in Shanghai to han-

dle an emergency evacuation. I believe this should be immediately remedied.

Failing measures such as those outlined above, I am afraid of a stampede if and when it becomes evident Shanghai is going to change hands. Under best of circumstances, an emergency evacuation would cause serious hardships and losses; and I feel it important to get as many people as possible away in an orderly fashion.

Repeated Nanking 1805.

CABOT

393.1115/11-1148 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, November 11, 1948.

[Received November 12—3 : 23 a. m.]

335. Following notice issued this afternoon by Consulate General to American citizens Tientsin :

"Inasmuch as later evacuation on an emergency basis may be impossible, American citizens who do not desire to remain in North China should plan to leave at once by US naval vessel from Tientsin. It is planned that the next US naval vessel will leave Tientsin on November 18. American citizens who desire to avail themselves of the opportunity of proceeding by US naval vessel should communicate with the Consulate General by November 13.

Persons proceeding to Shanghai should endeavor to make their own arrangements for lodging there. Efforts will be made to billet persons unable to make such arrangements."

Sent Nanking 584, repeated Department, Shanghai 545, Tsingtao and Peiping.

SMYTH

124.93/11-1248 : Telegram

*The Supreme Commander of the Allied Powers in Japan
(MacArthur) to the Secretary of State*

TOKYO, November 12, 1948.

[Received November 12—1 : 04 a. m.]

65329. From SCAP to American Embassy, Nanking, info Dept of Army, pass to State. This refers to 100114Z sent USPol,⁴⁷ Tokyo, 106 and repeated to Secretary of State 2152, November 9.

⁴⁷ Office of United States Political Adviser to the Supreme Commander, Allied Powers, Japan.

Your proposal to transfer personnel of United States Embassy and Consular agencies, estimated at maximum of 600 individuals from China stations to Japan for accommodations for an indefinite period pending readjustment of military situation in China, is considered utterly unfeasible because of lack of facilities here. The shortage of accommodations has developed a continuing extensive backlog in the United States of dependents of certain categories of occupation personnel while entry of dependents of certain other categories has been denied completely.

There is further objection to entry of United States personnel on the basis suggested by you in that such action would constitute an unilateral privilege to the United States in an international area that would require the according of similar privilege to persons of Allied Nations, thereby creating an impossible and embarrassing situation. This proposed use of Japan as a base for the United States diplomatic agencies accredited to China would probably be strongly protested and would unquestionably develop serious international complications.

The Supreme Commander for the Allied Powers is, however, prepared to provide for emergency transitory accommodations in Japan for this personnel to the extent necessary, pending arrangements for passage to the United States or other destination.

MACARTHUR

893.00/11-1248 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948—9 a. m.

[Received November 12—1 : 56 a. m.]

2177. We are already receiving queries from prominent Chinese Government officials who believe their lives would be endangered in the event of Communist occupation of Nanking or of protracted and extreme civil disorders in the city as to the possibility of seeking asylum in the Embassy. We are confident we will receive additional such queries and that the numbers might well run into the hundreds. We propose unless instructed by the Department to the contrary to follow the precedent of Kunming case involving the assassination of Wen I-to during the summer of 1947⁴⁸ and afford asylum only in cases where there is a clearly demonstrable imminent threat of death.

Department's guidance and instructions would be appreciated.

STUART

⁴⁸ July 1946; see despatch No. 22, August 2, 1946, from the Ambassador in China, *Foreign Relations*, 1946, vol. ix, p. 1440.

124.93/11-1248: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1948—11 a. m.

[Received November 11—11:39 p. m.]

2181. All indications point to rapid spread hostilities Nanking and Shanghai areas. We would like to evacuate to place of safety Embassy and Consular dependents and female and nonessential personnel from these and possibly certain other points. Information on point to which they will be evacuated is urgently required for arranging transportation and orderly movement. If use of Japan for this purpose, our 2152, November 9, is not feasible, suggest movement to Guam. Request Department explore this possibility and inform us at once. We repeat that this information is very urgently needed.

STUART

393.1115/11-1248: Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, November 12, 1948.

[Received November 12—5:24 a. m.]

452. Reference Tientsin's 584 to Nanking, November 11.⁴⁹ Coordinating with Consulate Tientsin [and] Peiping office yesterday, issued identical notification American citizens this point.

Sent Nanking 668, repeated Department 452, Shanghai 448, Tsingtao and Tientsin.

CLUBB

893.00/11-1248: Telegram

*The Ambassador in China (Stuart) to the Secretary of State*⁵⁰

NANKING, November 12, 1948—3 p. m.

[Received November 12—12:43 p. m.]

2188. Present indications are that Generalissimo intends defend Nanking. Meanwhile there is gradual general breakdown law and order in city with some mob violence in form looting foodshops. Police are beginning lose control of situation and are failing to report for duty. We anticipate pronounced increase in civil disturbances, particularly as fighting nears city and similar disorders in other cities

⁴⁹ Sent to the Department as telegram No. 335, p. 878.⁵⁰ Copy transmitted with memorandum to the White House on November 13 for President Truman at Key West, Florida.

still under Government control. Possibility exists rioting may take anti-foreign turn, but this not yet evident. Martial law just declared may temporarily ameliorate this situation.

Evacuation JUSMAG dependents will be complete by end week and movement made personnel will begin shortly thereafter. Naval vessels now available here for evacuation Americans and other foreign nationals to Shanghai, with first sailing November 15. Destroyer with complement Marines will arrive here shortly for evacuation protection American lives as might be required in emergency.

Embassy classified files being placed on board naval vessel for safe-keeping and will be returned to Embassy when conditions permit. On receipt reply our 106 to Tokyo, repeated Department 2152,⁵¹ we will make firm plans evacuate dependents, female, and nonessential personnel. If impossible evacuate to Japan, they will probably be embarked in naval vessels in emergency with destination determined later. Arrangements are being concluded with Sino Supreme Headquarters for assignment Chinese military police guards for Embassy compounds and houses.

Preliminary evacuation warnings are in effect Peiping, Tientsin, Hankow and Shanghai consular districts. On November 10 we informed Peiping and Tientsin desirability persuading all persons resident those districts who may desire leave that evacuation on emergency basis may prove impossible and that advantage should be taken of presently available sea transport from Tientsin provided by ComNavWesPac. We are asking Navy provide water transport from Hankow and Kiukiang to Shanghai on non-emergency basis. If this transport can be made available we shall ask ConGen Hankow urge those Americans desiring leave to make use of it.

Evacuation nonofficial Americans and other nationalities as presently proceeding will result in their concentration Tsingtao and Shanghai. Current shortage commercial shipping makes their onward movement, particularly to US, virtually impossible. We are attempting ascertain numbers desiring return States and believe Navy will be able furnish shipping on receipt firm estimate numbers desiring passage. Also ComNavWesPac informs us ability furnish transportation from Shanghai on emergency basis.

We are most grateful for funds made available in Deptel 1575⁵² and believe they will be most useful at later date.

STUART

⁵¹ November 9, 6 p. m., p. 876.

⁵² Not printed.

124.93/11-1248 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*⁵³

NANKING, November 12, 1948—4 p. m.

[Received November 12—4 : 52 a. m.]

2189. In light negative response from Japan (our 2152, November 9), we suggest Department explore in addition to Guam (Embtel 2181, November 12) possibility of moving Embassy and consular dependents and female and non-essential personnel to Philippine Islands. If facilities not available Manila, perhaps Baguio or some similar place might be feasible for temporary asylum.

STUART

124.93/11-1248 : Telegram

The Acting Secretary of State to the Chargé in the Philippines
(Lockett)

WASHINGTON, November 12, 1948—11 a. m.

1354. Emb Nanking states in view very rapid deterioration ChiGovt mil position it may become necessary evacuate Emb and certain consular dependents and some personnel to point from which they could readily return after cessation hostilities, total number estimated maximum 600 persons. Temporary accommodations would be needed until return China feasible. Duration stay probably would not exceed 2 or 3 months.

Since SCAP cannot provide such accommodations, Nanking has requested Dept explore possibility such facilities Manila, Baguio or similar place Philippines. Please give top priority investigation this matter and report urgently direct Emb Nanking, repeating message to Dept.

Dept Army informing Gen. Anderson⁵⁴ and instructing him extend full cooperation.

In event temporary accommodations available Philippines and evacuation eventuates, Emb instructed approach FonOff with request facilitate issuance necessary visas (on group basis if possible) and concert action with Emb Nanking.

LOVETT

⁵³ Repeated to the Chargé in the Philippines as telegram No. 22.

⁵⁴ Maj. Gen. Jonathan W. Anderson, Commanding General, Philippine Command.

393.1115/11-1248 : Telegram

*The Commander of the United States Naval Forces in the Western Pacific (Badger) to the Consul General at Shanghai (Cabot)*⁵⁵

[TSINGTAO,] November 12, 1948.

[Received November 12—2: 59 p. m.]

120803 Z. Your priority despatch 2386 of 11 November State Dept passed to me for information and comment. Your request for services is all that is necessary for me to provide air and/or water transportation for persons desiring to leave China for security reasons. Please inform my designated representative, Rear Admiral Entwistle, and me if you like, of your requirements in terms of what you need and when you need it. Our agreed plans already cover shuttle service to Japan where CinCFE⁵⁶ stands ready at my request to receive and care for evacuees and to make arrangements for their onward routing to US. I only await the necessary information to begin the transportation of these individuals.

With regard to the gasoline, I stand ready to render assistance in this regard in case needs for evacuation purposes can be justified as differentiated from the routine operation of commercial airlines. Agree with you that all US nationals now desiring to leave area should have transportation provided now and passage facilitated as much as possible.

124.93/11-1348 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, November 13, 1948—7 p. m.

[Received November 13—7: 13 a. m.]

2237. Reur 622 [22], November 12⁵⁷ and Deptel 1354, November 12. Philippine University area evacuated by army for delivery to Philippine Government January 1st has housing facilities now available as follows: 178 houses for families, bachelor officer quarters for 500 individuals and barracks space for 600 individuals. A single mess for 1,000 persons being operated which army proposes to close November 21.

From foregoing it will be seen that Philippine University area will house up to 2,000 persons. As army has evacuated area, all furnishings were removed from housing facilities, but plumbing and electric wiring still intact. It is believed bare necessities for furnishing quarters are available. Stoves and refrigerators are not available and persons occupying this area would have to use central mess.

⁵⁵ Repeated to the Department.⁵⁶ Commander in Chief, Far East (MacArthur).⁵⁷ See footnote 53, p. 882.

Philippine University area is adjacent to metropolitan Manila and I believe evacuated personnel would be reasonably comfortable there. A survey indicates Baguio and other areas inadequate.

Army willing to give all possible aid in preparation and operation of Philippine University area for evacuees but I am informed it does not possess any funds for that purpose. Embassy should receive all possible advance notice if area is to be used and request advance of funds from Department when decision is made. I have received fullest cooperation from General Anderson who is requesting clearance from CinCFE. This afternoon President Quirino⁵⁸ informed me he had no objection to the use of housing facilities at Philippine University area for emergency purposes and will give necessary instructions for issuance of visas that may be required.

Sent Nanking 14, Department 2237.

LOCKETT

893.00/11-1348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State^{58a}

NANKING, November 13, 1948—7 p. m.

[Received November 13—9:33 a. m.]

2206. Principal military forces remaining to Government are presently or shortly will be engaged between Nanking and Hsuehow. There is no significant Government force in terms of regular troops to south of Yangtze. It appears probable that Communists will succeed in destroying Government forces north of river within 10 days to 2 weeks. When this occurs, Government cannot long defend Nanking-Shanghai area, and will either disintegrate or be forced to flee to some other point in China. Generalissimo still intends fight as long as possible. While there is growing opposition this course in Government circles, Generalissimo still controls army and his policy will probably prevail.

Given Generalissimo's determination continue war, unless he should be removed by coup, upon which we should not count, we do not anticipate orderly transfer power from present to successor government. We believe sporadic and largely unorganized resistance to Communists will persist in South and Central China for some time, with high incidence civil unrest and breakdown law and order. We also believe that these conditions will constitute definite hazard to well-being foreign nationals resident all parts of country.

As Dept is aware, JUSMAG has called in its outlying teams and intends evacuate male personnel from points where hostilities threaten,

⁵⁸ Elpidio Quirino, President of the Republic of the Philippines.

^{58a} Copy transmitted by the Acting Secretary of State with memorandum to the White House on November 13 for President Truman at Key West, Florida.

including Nanking and Shanghai. Evacuation American and other foreign nationals requires use JUSMAG facilities, particularly for air movement. Normal means transportation within China are already overburdened and are virtually unavailable to unofficial travellers.

Due to rapid deterioration in Government position and prospective nonavailability evacuation facilities which we had planned to use in emergency conditions, believe that time has come to institute emergency evacuation procedures for practically all of China, since it will probably not be possible provide these or any other evacuation facilities as acute and critical emergencies develop in various localities. Accordingly, we are instructing ComNavWesPac, unless Dept instructs to contrary, to set "emergency condition D", as provided in ComNavWesPac operation plan No. 103,⁵⁹ as of 0800 hours local time, Tuesday, November 16. This condition will apply to Peiping, Tientsin, Nanking, Shanghai, Hankow, Chungking, Kunming and Canton consular districts only, and will embrace only those protective features provided by the plan as may be necessary in the course of carrying out the evacuation of non-official Americans and other foreign nationals. Consular and Embassy personnel will, of course, remain at their posts except as evacuation of dependents and female employees is authorized. We are advising ComNavWesPac that the protective features included under "condition D" are not needed at present and that only the transportation facilities included therein are presently wanted. We are also informing him of our opinion that the operation should be conducted with as little publicity as possible in order that it not occasion further loss public confidence in Government.

STUART

893.00/11-1448: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 14, 1948—1 p. m.

[Received November 14—8:25 a. m.]

2213. Military position Government deteriorating rapidly and Communist occupation Nanking-Shanghai area expected near future. Generalissimo apparently determined attempt defense Nanking but has insufficient forces avert its loss and will probably be forced flee to some other point in China. On these conditions orderly transfer power to successor government highly unlikely. Orderly transfer possible if Generalissimo removed or left office in favor temporary

⁵⁹ Not printed.

caretaker government but we have no firm reason anticipate such development.

We believe only sporadic unorganized resistance to Communist will prevail after fall capital. Communists will have military capability move armies virtually any point in country without significant resistance. Flight or disintegration present Government will probably result in high incidence civil unrest and breakdown law and order throughout country with hazards to personal safety American and other foreign nationals.

Rapid spread hostilities involves likelihood American naval and military facilities for emergency evacuate American and other foreign nonofficial persons to places of safety will not be available. Commercial transport for this purpose greatly overburdened.

Because of likelihood conditions hazardous for American and other foreign nationals and prospective nonavailability means emergency movement to places of safety we have reached decision implement emergency evacuation plans at once for practically all of China. These plans involve provision transport from interior to coastal points and onward movement to US and/or other places outside country. Persons involved are nonofficial American nationals. Yet foreign nationals will be moved for humanitarian reason and on space available basis. Arrangement for this transport is responsibility ComNavWesPac and is provided for under "emergency condition D" of his operation plan 103 ⁶⁰ copies of which are held by some addressees this message.

We are authorizing ComNavWesPac set condition D as of 0800 hours local time Tuesday, November 16. Protective features included in plan under condition D will be invoked only as needed and emphasis will be on transport. Accordingly at that time you should release following statement all Americans your district.

"In view generally deteriorating situation and likelihood that means of exit from China may later be unavailable, all Americans in blank consular district who are not prepared to remain in areas where they now reside under possibly hazardous conditions should plan at once to move to places of safety. Facilities for movement are being arranged and will be announced shortly. These facilities will probably be available for only short period of time. Therefore, all persons intending take advantage this opportunity for movement should do so immediately on receipt of information on time and place of availability of transport."

This notice should be sent Americans your district by fastest possible means. Suggest at interior points it be telegraphed to selected key Americans for dissemination to balance local American communities.

⁶⁰ Not printed.

Consuls having local emergency plan coordinated with ComNavWesPac plan 103 should note that only those measures planned under condition D relate to transport to place of safety are currently invoked. All Consuls should take other measures such as internal security of Consulate only as individual appraisal of local situation indicates.

Consuls whose local emergency and evacuation plans have not been coordinated with ComNavWesPac plan nor with AAG Air Evacuation Agency will be further advised on necessary procedures. At interior points it is desirable prospective evacuees begin soonest possible concentrate at points from which their removal by air or water is feasible.

Consuls will be further informed of plans for removal official dependents and such female personnel as may desire to place of safety from which their return to posts may be readily possible when conditions stable.

Circular Chinese Consulates except Hong Kong, Dairen, Tihwa, Mukden, repeated Department as 2213.

STUART

893.00/11-1248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 15, 1948—2 p. m.

1617. Ur 2177, Nov 12. Dept does not believe Kunming asylum case should be considered precedent as conditions wholly different from those which may obtain Nanking or various Consulates China in event threat Comm occupation. As Emb aware, Wen I-to assassinated under circumstances suggesting instigation or complicity on part local authorities, and asylum granted by Consulate on basis lives refugees in danger and appeal to local authorities futile. Following receipt suitable guarantees of protection from local govt, concerned persons departed Consular premises.

In event threat Comm occupation Nanking becomes imminent, Dept believes it inevitable Emb will receive numerous requests for asylum from ChiGovt officials and civilians who recalling Kunming case may consider Emb asylum preferable to flight. However, once asylum granted Emb would find it extremely difficult release such persons to mercies local Comm authorities as such persons would then be under additional suspicion for having sought refuge with Americans. Moreover, Comm authorities might present Emb with demand to surrender refugees and, if demand refused, might seek to remove refugees by force thus jeopardizing Emb personnel and complicating relations with Comm authorities in protection of American interests, particularly if circumstances such Chinese Comm authorities not at that time recognized by US as legal successor to present govt.

Dept also of opinion absence clear cut stand on asylum issue by Emb in advance emergency situation might lead to belief on part certain officials they could defer making their own plans and depend on asylum by Emb on "life or death" basis in event overtaken by Comms.

Emb should therefore make clear to prominent Chinese and Govt officials who may inquire that USGovt does not recognize or subscribe to doctrine of asylum as part of international law, and that FonServ establishments are enjoined by regulation (FSR 101.845) not to extend asylum to persons outside their own official or personal households.

It is not Dept's intention in outlining above completely prohibit Emb from granting temporary asylum in extraordinary circumstances and in discretion Amb, but Dept wishes avoid such a contingency. Accordingly, Emb should avoid giving any impression such discretionary authority may be exercised and should consistently refrain from giving any hope of asylum.

Emb should circularize concerned Consulates in above sense.

LOVETT

393.1115/11-1648: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 16, 1948—3 p. m.

[Received 3:42 p. m.]

2424. ReEmbscirtel November 14, 1 p. m.⁶¹ Warning to Americans issued as directed. We have already requested Americans to report by Thursday whether they wish to be evacuated by transport and reiterated this request in notice today.

An evacuation unit has been set up to handle evacuation problems. This has necessitated withdrawal of several officers and clerks from other sections and will curtail work done in those sections, notably commercial reporting. Citizenship unit has been reinforced.

Virtually all confidential files of Consulate have been transferred to Navy's custody in Glenline Building, from where it should be possible to evacuate them to naval vessels even in extreme emergency. Would appreciate guidance re coding machines. If hostile turnover occurs here, should Consulate destroy these machines, seek to evacuate them or keep them in Consulate?

I assume Embeirtel November 14 1 p. m. does not mean Consulate personnel is to leave Shanghai and that Consulate will carry on even if hostile turnover occurs.

Sent Nanking 1836, repeated Department 2424.

CABOT

⁶¹ Sent to the Department as telegram No. 2213, p. 885.

124.93/11-1548 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 16, 1948—6 p. m.

1634. No personnel should be evacuated US. Dept plans transfer large number to other posts Far East[;] telegraph names personnel you intend evacuate from Nanking Shanghai and other Chinese posts. Ref para 4 urtel 2216 Nov 15, 1948.⁶² Paragraphs 1, 2 and 3 being answered separately.

LOVETT

693.1115/11-1748 : Circular telegram

*The Acting Secretary of State to Certain Diplomatic and Consular Officers*⁶³

WASHINGTON, November 17, 1948—5 p. m.

For Emb guidance following is text pertinent part letter being addressed National Foreign Trade Council and Far East American Council in reply business inquiries re Dept's desires and views concerning maintenance their offices and essential personnel China :

"The American Embassy at Nanking and American consular offices in China have advised American nationals in their districts who are not prepared to remain under possibly hazardous conditions in areas where they now reside that they should plan at once to move to places of safety. These warnings were issued on the basis of their judgment of the situation, and in performance of their normal duty of pointing out the dangers of such situations to American nationals. The Department approves their action and concurs in their opinion that unnecessary risks should not be incurred by American nationals whose presence in China is not essential. This advice was directed to those Americans who have no compelling reason to remain.

For its part the Department does not at this time contemplate any change in the present functioning of any of its Consulates in China, which will continue to afford their usual facilities to U. S. citizens and firms. The evacuation of Embassy and consular dependents in China is being left entirely to the discretion of the officers and employees concerned."

LOVETT

⁶² Not printed.

⁶³ The Ambassador at Nanking; the Consuls General at Shanghai, Tientsin, Peiping, Hankow, Tsingtao, and Canton.

393.1115/11-1848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 18, 1948—6 p. m.

[Received November 18—6 p. m.]

2467. Civil Air Transport, CAT, has requested permission operate evacuation shuttle Shanghai-Nanking-Hong Kong and has received verbal assurances permission will be granted.

Sent Department, pouched Nanking 1865.

CABOT

893.796/11-1848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 18, 1948—7 p. m.

[Received November 18—5:12 a. m.]

2468. According Bond,⁶⁴ CNAC company now moving maintenance other equipment Hong Kong with view establishing main base operations there if eventually necessary. Should Government change hands, all CNAC flight equipment will be flown Hong Kong pending clarification CNAC status, as Chinese airline CNAC would hope continue operations China under either fully Communist or coalition government. Bond says PanAm presently plans, if in accord US Government policy, endeavor retain its interest CNAC should strictly Communist government evolve.

Sent Department, repeated Nanking 1866.

CABOT

125.0093/11-1948 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 19, 1948—7 p. m.

1673. Regarding evacuation Americans from China to Manila reference Manila's tels 2265 Nov. 18, 2252 Nov 16,⁶⁵ 2237 Nov 13 repeated Nanking as 18, 17, and 14.

View Manila's request for \$75,000 to cover operation Philippine University area camp for 3 months Department desires clarification on following points:

1. What is the total number of personnel expected to be evacuated from China to Manila for occupancy university area camp?

2. Will this number include both non-official American evacuees and American State Department officials and dependents?

⁶⁴ William L. Bond, Vice President of Orient Pan American World Airways, Shanghai and Hong Kong; formerly with China National Aviation Corporation (CNAC), Shanghai.

⁶⁵ Neither printed.

3. What categories personnel included in maximum estimate 600 persons to be evacuated (Nanking's 2152, Nov. 9)?

4. What categories persons estimated at 150 dependents going Manila date of departure unknown (Nanking's tel 29 to Manila ⁶⁶)?

Noted that university camp area accommodates 2000 persons at minimum expense \$25,000 monthly covering only electricity, water and guard service. If intended that university camp area be limited to official personnel and their dependents is it possible make other arrangements smaller space or activate only part university camp area at lower expense if total number expected evacuees substantially less than capacity university camp area.

LOVETT

393.1115/11-2248 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 22, 1948—4 p. m.

[Received November 22—6:27 a. m.]

2489. Am seriously concerned at priority problems which have arisen in regard evacuation of Americans from Shanghai area.

Two types of cases are of special importance:

(1) Americans who must remain until last possible minute order assure orderly evacuation and protection of important US interests until evacuation completed. (Typical this class are Shanghai Power Company key employees whose departure would result in probable breakdown of light and power production and chaos resulting therefrom. With Navy's authorization, I am today informing power company that 11 named employees will be given priority if they so desire in last minute evacuation.[])

(2) Most American business concerns wish to retain at least 1 American to represent their interests. I feel it is highly desirable that this be encouraged within strictly restricted limits. To this end I recommend such businessmen be given assurances they will receive priority in possible repatriation and exchange arrangements.

Should Embassy and Department agree with Consulate General, this would also enable me to point out to dependents and Americans not having compelling reasons to remain that they should evacuate at early date. Although I am not certain how far Department and Embassy wish me to go in evacuation consular staff, I intend to include many, particularly women of the staff, in category I and trust remainder will be included in category II. Details by airmail.

Sent Department, repeated Nanking 1879.

CABOT

⁶⁶ Dated November 18, not printed.

125.0093/11-2348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 23, 1948—8 p. m.

[Received November 24—8:26 a. m.]

2299. ReDeptel 1673, November 19.

1. Estimate total number personnel expected to be evacuated to Manila now 125.

2. Number includes dependents and female employees Embassy, Consulates, Service Attachés and ECA but not non-official evacuees.

3. Same categories included maximum estimate 600 persons (Emb-tel 2152, November 9). This maximum included all female employees and all dependents in China.

4. Same categories included interim estimate 150 dependents going Manila (Emb-tel 29 to Manila ⁶⁷).

Upwards 120 additional female employees and possibly 100 dependents may be evacuated Manila in case all personnel except males must leave China.

Sent Department 2299, repeated Manila 32.

STUART

393.1115/11-2248 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart) ⁶⁸

WASHINGTON, November 23, 1948—8 p. m.

1691. Apparent from Shanghai's tel 2489, Nov 22, rptd Nanking 1879, that there exists disparity in thinking between Dept and field re questions evacuation. Dept of opinion Americans in China divide into two categories for evacuation purposes not including dependents of Armed Forces personnel who are engaged in quasi-military activities and who move only under orders: (1) Civilians and their dependents whose presence China not essential and who have no compelling reason remain China; and (2) Americans whose presence China essential to continue functioning U. S. business, educational, missionary, or other enterprise. Dept's intention in authorizing issuance evacuation warnings was to enable adequate notice be given all Americans in China of worsening situation and transportation difficulties and permit Americans both above categories make arrangements depart if they so desired. Dept did not, however, contemplate that Americans in category (2) would depart in large numbers but would rather adopt traditional policy toward civil disorders in China as in case of Consulates and Emb. Hazards of advising Americans to remain China, thus assuming partial responsibility for any untoward effects result-

⁶⁷ Dated November 18, not printed.

⁶⁸ Repeated to the Consul General at Shanghai as telegram No. 2004.

ing from such advice, obvious and undesirable, but Dept believes it equally undesirable to urge Americans in category (2) to evacuate. Present position Americans in China totally different from that obtaining 1940-1941 when war involving US appeared imminent, and Dept fails comprehend Shanghai's reference to "possible repatriation and exchange arrangements". As indicated Depcirtel Nov 17, when discussing evacuation arrangements with interested business and missionary organizations, Dept has invariably coupled recapitulation of facts re evacuation warnings with statement that no change contemplated in continued functioning consular establishments and therefore by hypothesis US organizations having considerable interests and stake in China might follow similar course. If key employees Shanghai Power Co., for example, were to depart Shanghai even at last minute as suggested reftel, Dept believes predominant American interest that company would be seriously jeopardized.

Dept realizes that conditions obtaining various parts China when occupied by Comms may differ and that Emb and Consulates must exercise flexibility re evacuation procedure. Experience Mukden, for example, indicates only danger Americans experienced arose from looting pillaging by Nationalist troops during period interregnum and subsequent bombing by CAF following Comm occupation. Mukden's 586, Nov. 16 rptd Nanking 696⁶⁹ states "No instances of arrests or molestation in any way any foreign persons remaining Mukden. Attitude remains correct." While Dept realizes liberal treatment accorded in Mukden may well be temporary phenomenon, incoming troops obviously thoroughly briefed re attitude and actions toward foreigners. Peiping's 474, Nov 19, sent Nanking as 703,⁷⁰ indicating no considerable civil unrest or breakdown law and order expected in Peiping if Comms occupy also case in point. Conditions Shanghai and Nanking may vary considerably from those north China, but Dept believes chief danger to US citizens and property would arise during any period between collapse or withdrawal present administration and successor regime.

Re final para Shanghai's reftel, Dept does not desire that any staff members Emb or ConGen be evacuated with exception those female employees who specifically request such evacuation. Emb and ConGen should not therefore except *in extremis* urge evacuation on staff members even on "last minute" basis as such evacuation would have adverse effect on continued functioning your offices.

Dept's position re evacuation Emb and consular dependents clearly set forth in Deptels 1199 Aug 18 and 1302 Sept 13⁷¹ with request con-

⁶⁹ Vol. VII, p. 571.

⁷⁰ Not printed.

⁷¹ Vol. VII, pp. 822 and 823, respectively.

cerned Consulates be informed. This position unchanged and Emb should therefore not put pressure on dependents to evacuate (as indicated Clark's letter to Butterworth Nov 10 ⁷³) if concerned officer or employee does not desire such evacuation.

Emb inform concerned Consulates above sense.

LOVETT

393.1115/11-2348

The Consul General at Shanghai (Cabot) to the Secretary of State

No. 981

SHANGHAI, November 23, 1948.

[Received December 2.]

SIR: With reference to my telegram no. 2489 of November 22, 1948, I have the honor to enclose herewith a copy of a letter which the Shanghai Power Company has addressed to me and a copy of my reply to this letter.⁷⁴ It seemed to me clearly in American interests that we should give the assurances requested by the Shanghai Power Company since any breakdown in the furnishing of light and power to the city might well result in chaotic conditions, disturbances of public order, and, in view of the dependence of other utilities on electric power in epidemics.

In view of the heavy pressure which evacuation problems have placed on the depleted staff of this Consulate General, I have held a meeting with the women members of the staff at which I asked them to remain in Shanghai for the time being despite the fact that authorization had been granted for their temporary transfer to Manila. I felt that this was necessary in the public interest and trust that the Department will endorse the stand which I have taken.

With regard to American business men remaining behind to protect American interests, the Department will appreciate that many established concerns with important investments should not be left, under the circumstances, unrepresented by resident Americans. This applies both in the commercial and missionary fields. I have made it very clear whenever consulted that I think all dependents, even including wives with no children, should leave the Shanghai area at an early date. At the same time I have encouraged American business men to leave their interests represented by key Americans remaining behind. It seems to me clear that it would not be to the national interest to abandon positions held by Americans which have been acquired through patient upbuilding. It is evident that some of the other foreigners in Shanghai are hoping that they may benefit through our abandonment of positions now held.

⁷³ Not found in Department files.

⁷⁴ Neither printed.

It may strike the Department as unchivalrous to give priority to such business men over women and children in any eventual repatriation or exchange arrangement which may be made. Nevertheless I do not think women and children who have disregarded our clearly expressed warnings and have no essential reason for remaining here should feel that they have any just complaint if American representatives of important interests who have remained behind out of a sense of responsibility to the interests they represent are given priority in repatriation arrangements. I may say that there has been much criticism in Shanghai circles of the American families who remained behind in 1941 and thereby prevented Americans who remained behind for compelling reasons from being included in the repatriation arrangements which were concluded in 1942 and 1943. I trust that the present situation will not develop to the point that any such arrangements become necessary, and I appreciate that even if it should it does not appear likely that we would have anything to offer a Communist regime in return for our nationals who remain behind. At the same time it does appear to me that we should make our attitude clear at an early date. The mere fact that it might be possible to get only a few Americans out in such an eventuality would make the question of priorities of special importance.

In this connection I should perhaps make it clear that I do not contemplate setting up a specific list of Americans to whom I would issue priority under category 2. It seems to me that such a list would have to be compiled at the time that any general arrangements for repatriation became possible, and that it would have to be compiled in the light of the record in each individual case. At the same time if I were permitted to make our position clear in this matter I feel that it would encourage the men representing important American interests to remain and might bring home to persons having no compelling reason for remaining here the desirability of their early departure.

Respectfully yours,

JOHN M. CABOT

125.0093/11-2348: Telegram

*The Secretary of State to the Chargé in the Philippines (Lockett)*⁷⁵

WASHINGTON, November 24, 1948—5 p. m.

1390. For Embassy and Wright.⁷⁶ Appreciate Embassy's report lack of housing, either public or private to accommodate large numbers personnel evacuated China other than Philippine University area.

⁷⁵ Repeated to the Ambassador in China as telegram No. 1696.

⁷⁶ Rear Adm. William Dudley Wright, Jr., Special Assistant to the Director General, Office of the Foreign Service, serving as Coordinator Philippine Rehabilitation Agencies; he was in Manila November 20–December 1, 1948.

Your 2282 Nov. 22.⁷⁷ However, Nanking 2299 Nov. 23 reduces estimated number personnel now to be evacuated Manila to 125. As possible alternative Phil Univ quarters can you consider Camp John Hay or Sea Front as staging area to receive China personnel pending possible other arrangements Manila or elsewhere. Per diem will be paid while Manila making possible hotel or private quarters as available.

Report present space available Sea Front and what additional space can be made available on barracks basis through consolidation Rehabilitation Agencies warehousing quarters and time required for consolidation.

Department will allot funds to cover cost Phil Univ area if required but urges exploration other possibilities considering reduced numbers evacuees reported by Nanking.

Embassy's recommendation return evacuees to US considered but Dept. believes preferable provide point near China as staging area from which employees, if necessary to evacuate this category personnel, may be reassigned other points in area and from which dependents may more easily rejoin officers and employees remaining China when conditions permit.

MARSHALL

124.936/11-2548 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 25, 1948—11 a. m.

[Received November 25—6:50 a. m.]

2321. In Nanking we have fully understood and followed policies outlined Deptel 1691, November 23 re evacuation. However, we have urged dependents with children to seek temporary refuge elsewhere as matter of ordinary prudence. If turnover in Nanking takes place, as is possible as result active Communist assault, it will be no place for non-essential women and children. As dependents evacuate it becomes possible concentrate others in fewer compounds, thus facilitating protection. We anticipate that presence of Marines on guard at compounds will of itself be sufficient to deter ordinary rioters and we have assurance special protection from municipal police. Female employees have been told that they were expected remain on duty, but that evacuation would be effected for anyone unwilling to remain. We also were puzzled by Shanghai's 2489, Nov. 22 and had requested clarification.

Consuls being informed in sense Deptel 1691, November 23.

STUART

⁷⁷ Not printed.

393.1115/11-2648 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 26, 1948—noon.

[Received November 26—2:24 a. m.]

2529. ReDeptel 2004, November 23, 8 p. m.⁷⁸ I do not think Department's position is substantially different from that taken by Consulate General in either public or private discussions with American residents here. Consulate General has regularly pointed out that although risks are involved, it is undesirable for Americans to evacuate if their presence in China is essential to continued functioning of US business, educational, missionary or other enterprises. Evacuation is urged of dependents and other persons whose presence here is not essential.

Only difference in emphasis of Department and Consulate General appears in case of Consulate General dependents, especially children, whose evacuation I have urged as necessary to set example to community. I have in no case required such evacuation. With regard to evacuation members of staff itself, I have thought primarily in terms of reassuring nervous members of staff and of possible temporary removal in case situation deteriorated to point emergency measures become necessary.

Reference to "possible repatriation and exchange arrangements" refers to possibility that, after Communists take over, international war involving China might break out or possibility Chinese Communists might use American residents as hostages to stop our aid program. While I trust these possibilities are remote, I do not think we can overlook them in our planning.

In counselling private American citizens, we have to deal both with those who are inclined to underestimate risks involved and those who, having in many cases had bitter experience in 1941, are determined to leave now regardless of positions they will leave unfilled. It was to persuade the Shanghai Power [Co.] officials to stay rather than to urge them to go that I gave them assurance they requested.

My despatch No. 981 of November 23 will throw further light on my thinking in this matter.

Sent Department, repeated Nanking 1901.

CABOT

⁷⁸ See footnote 68, p. 892.

125.0093/11-2648 : Telegram

The Chargé in the Philippines (Lockett) to the Secretary of State

MANILA, November 26, 1948—7 p. m.

[Received November 26—7:23 a. m.]

2316. ReDeptel 1390, repeated Nanking 1696, November 24. Resurvey indicates maximum of 150 evacuees can be cared for immediately in part of Philippine University area so that activities of University will not be seriously interfered with.

Army will operate officers mess for evacuees. Estimate cost of operation evacuee area between \$12,000 and \$15,000 monthly for maximum 150 exclusive of mess. It is essential that Dept make available before arrival of evacuees November 29 \$15,000 for use of Army in operation of area as certain preliminary expenditures in preparation of camp are necessary. If immediate transfer of funds to Army cannot be effected, Embassy suggests funds be made available to Embassy in amount \$15,000 to assure no delay in camp opening.

Resurvey of Sea Front and Camp John Hay reestablishes non-availability of proper space in those areas. Admiral Wright concurs in the inadvisability of trying to jam Sea Front by further crowding except in direst necessity. I would like to assure Ambassador Stuart that we are ready to welcome a maximum of 150 Government personnel and dependents. What we need are the funds requested in this telegram and definite information concerning arrival of evacuees in view of his telegram 2324 to Dept ⁷⁹ indicating a cancellation of evacuation to Manila.

Sent Nanking 23, Department 2316, repeated Shanghai 153.

LOCKETT

893.00/11-2748 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, November 27, 1948—4 p. m.

[Received November 28—11:50 p. m.]

383. American businessmen here who previously decided not to leave North China are becoming much disturbed over implications to their safety, in event of Communist occupation, of numerous recent press reports of American military aid to National Government, particularly press reports of arrival of such aid in Shanghai in US Naval vessels. There is also talk of military aid arriving North China by US Naval vessels. These Americans feel that if US Government is going to employ US vessels to transport military aid, and perhaps

⁷⁹ Dated November 25, not printed.

increase military aid, question of their safety under possible Communist occupation should be seriously considered. They believe that, if Communists should take Tientsin and Peiping after possibly sustaining heavy casualties because of Nationalist use of American arms, Communists, angered by this, might well give Americans very rough treatment. Attitude of Communists in regard to American military aid increasingly evident in their broadcasts which have appeared in press. Americans concerned do not take issue with any policy which their Government may adopt, but they feel that if US is going to increase military aid to National Government or employ US Naval vessels to transport such aid, they should be given far stronger warning to evacuate than comparatively mild notices so far issued.

Sent Nanking 630, repeated Department 383, Peiping.

SMYTH

125.0093/11-2848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 28, 1948.

[Received November 28—11:16 p. m.]

2348. For ComNavWesPac. Final arrangements completed Manila for accommodation Embassy consular dependents. Please arrange airlift Nanking group beginning Thursday, December 2 and Shanghai group soon as possible thereafter. Will notify you November 29 exact number desiring airlift as number somewhat lower than that given you previously.

Sent Tsingtao 218; repeated Shanghai 1170, Manila 40, Hankow 64, Department 2348, Peiping 248.

Shanghai pass to CTF 78.⁸⁰

STUART

800.8890/11-2948 : Airgram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 29, 1948.

[Received December 2—9:56 a. m.]

A-1049. During recent informal discussions with the local managers of the companies operating American ships, and also some British managers, it has been learned that in all cases there is no present intention to suspend or even curtail operations even if the Communists were to occupy Shanghai. While it is clear that they have given the matter careful consideration and recognize the difficulties and dan-

⁸⁰ Commander Task Force 78.

gers that may arise under a Communist regime, most of them feel hopeful that Communists would recognize that it would be to their own advantage to permit business to continue as usual.

The manager of one British shipping company frankly stated that after being here for 120 years, his company had no intention of leaving now.

The employees of some American lines are sending their families home. Others plan to remain at least for the present. In the case of the American President Line, the largest American company, all dependents of American employees are expected to be out of China by about December 15th.

The China Merchants Steam Navigation Company, Chinese Government owned, has made no arrangements for moving their offices from Shanghai as yet, although they look on the future with more anxiety than the foreign companies.

CABOT

893.00/11-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 30, 1948—8 a. m.

[Received 12:39 a. m.]

2360. It seems obvious to us that, under aid to China program, munitions sought under "other aid" by Chinese Government will continue to be supplied so long as we recognize existing Government (your 630, November 26, repeated Department 383). It is public knowledge such munitions are being transported in US Naval vessels. It seems unlikely that Congress, in considering possibility increased military aid to National Government, would be deterred from granting further aid, if otherwise desirable, merely because of presence in China of American citizens who had failed to heed warning to evacuate. American businessmen involved might well take this into consideration in making their decision.

Sent Tientsin 226; repeated Department 2360.

STUART

393.1115/11-3048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 30, 1948—6 p. m.

[Received November 30—11:50 a. m.]

2580. Questions of priority re my 2529, November 26 and 2489, November 22 are being more insistently raised every day among American business community here. I must therefore again respectfully re-

quest Department to instruct me as to what I may say when inquiries are made of me re individuals who must reach decisions re their personal plans. Local head of Caltex has today called to ask whether Caltex American representatives in Tientsin will get any special consideration in last-minute evacuation or repatriation subsequent to anticipated Communist takeover. Standard Oil has evacuated all foreigners out of Tientsin, leaving Chinese in charge.

Majority opinion among American business leaders here is that Communists cannot be counted upon to adopt policy permitting them freedom of movement or of continued business operations but instead will sooner or later expropriate or strangle their business. They are, therefore, loath to take risk to stay behind to protect capital investment unless they have some assurance from US authorities. Without such assurances a number of enterprises may decide to move out even if they must abandon property. Typical is willingness of Shanghai Power Company officials to abandon entire enterprise unless assured full protection since they believe plants will be unable to get fuel and therefore to operate in any case. Most businessmen consider themselves already slaves of their employees and see little hope of carrying on business, meeting payrolls, et cetera, since they expect to be cut off from home remittances, raw materials, supplies, et cetera, and doubt Communists will have many exports to offer or much exchange for purchases in US. Most businessmen, in view of our program to aid Nationalists and widespread talk of increasing it, stories of reviving American Volunteer Group, et cetera, see dim possibility Communists permitting them continue in business on any basis. This viewpoint strengthened by reports home offices oil companies already approached by Department re possibility embargo on oil shipments any Communist areas China. Net result is many American businessmen see themselves left behind in China as virtual hostages of Communists at considerable personal risk with little prospect gain themselves.

US Chamber of Commerce already understood preparing list so-called essential business community to remain behind if we prepared to offer suitable guarantees of protection or evacuation if situation deteriorates to point where that proves necessary. Such guarantees as they see them should include armed intervention to assure their safe evacuation.

Only other alternative as they see it today is to get out with their families. Americans do not consider themselves in same position as other foreign nationals as result of our aid to Nationalists. Assurance US Consulates will be maintained not sufficient since they feel ConGen personnel may have some official immunity. Many unwilling face such situation in light 1941 experience. They consider situation not essentially different today even though US not now at war and feel any

financial sacrifice worth making to avoid possible detention for long period. Unrest expected to accompany or follow turnover this area relatively unimportant consideration.

I fully appreciate Department unable to give any strong guarantees at this time. Nevertheless, I feel attitude these businessmen by no means wholly unreasonable. Considering our extensive aid to Nationalists, increasing tension between Communists and non-Communists throughout world and fact that we have no Communist Chinese or interests in US against whom we might retaliate if Chinese Communists should decide to use Americans and American interests in this area as hostages to accomplish any political aims, these business leaders may well be right.

With regard to possibility of doing business after Communists take over, I am hopeful Communists will pursue moderate lines at least for while and will encourage foreign business to continue operations but businessmen would again appear right in noting practical obstacles to such continuance. It may also be pointed out that Communists are not likely for long to tolerate work of American educators in China and that in view of Communist attitude toward religion and obsession re spies, American missionaries may well soon find themselves squeezed out.

It is apparent that our hand would be strengthened in persuading dependents of missionaries to leave exposed areas if the head officers of the principal mission boards in New York were better informed as to hazards involved for dependents who remain here. Mission secretaries in New York in certain instances have criticized unjustly local mission representatives who have supported evacuation program for dependents. It is recommended Department consider advisability of passing on to a suitable mission liaison man at frequent intervals latest available information on situation in China as it bears on evacuation matters and that for all the Protestant mission groups, Wynn Fairfield, Secretary of Foreign Missions Conference, New York, might be an appropriate channel of communication. It is understood a similar procedure was successfully used in 1940 and 1941 for keeping principal mission groups currently informed on political and military situation as it affected their field missionaries. Consulate General is stressing evacuation of dependents but is not encouraging departure of key mission representatives.

I reiterate problem is to persuade those who should go to do so and do what we can to induce those in key positions to stay. There is real danger of many cases arising in which key people will go because of bitter experiences in 1941 and now [*non*]essential people belittling risks since they have had no bitter lessons will remain to weaken our hand in any dealings we may have with Communists as well as complicate by numbers any emergency evacuation.

Giving all of above consideration, I feel we should (1) assure by name certain people in key positions who expressly request last minute evacuation we will do everything in our power to provide them with such last-minute evacuation, (2) give general oral assurances through leaders of community that in making any arrangement for subsequent repatriation those key persons who have remained behind will enjoy priority over individuals who remained for purely personal reasons. As I have mentioned, this will both help to reassure key individuals and to induce an early evacuation of others. In protecting our interests in Shanghai area we must confront necessary risks involved both political and personal with realism and steadfastness but I feel we must also prudently try to cut unnecessary risks to a minimum.

Sent Department ; repeated Nanking 1946.

CABOT

893.796/11-3048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 30, 1948—7 p. m.

[Received November 30—6:34 a. m.]

2581. Roosevelt ⁸¹ of CNAC informs me that messages from their men in Hsuehchow indicate rapidly worsening situation there. Yesterday officers began to climb aboard returning planes ahead of wounded and message just received indicates panic now prevailing at airfield. CNAC advised not to send more planes.

Roosevelt adds that Minister Communications ⁸² has asked CANA [CNAC?] to place high official in control at Nanking airfield, indicating Government's intention to evacuate capital. Some offices apparently going to Chungking and Kweilin.

Another CNAC source adds to above that on 28th Hsuehchow [Bandit Suppression] Headquarters moved out of Hsuehchow. General Tu Yu-ming remained in charge.

CABOT

393.1115/11-3048

Memorandum of Conversation, by the Assistant Chief of the Division of Chinese Affairs (Freeman)

[WASHINGTON,] November 30, 1948.

Participants: Mr. John Kopelman, Vice President, Shanghai Power Company

Mr. Butterworth, FE

Mr. Freeman, CA

Mr. Kopelman called this afternoon to discuss questions regarding the evacuation of American citizens from Shanghai with specific

⁸¹ Quentin Roosevelt.

⁸² Yu Ta-wei.

reference to the employees of the Shanghai Power Company. He indicated that Mr. Paul Hopkins, president of the company and presently in Shanghai, was apparently becoming concerned over the fate of his employees in the event of Communist occupation and desired to evacuate all Americans in the company prior to such occupation. Mr. Kopelman implied that much of Mr. Hopkins' concern was based on the absence of a definitive U. S. Government position to be taken in the event of a collapse of National Government authority in Shanghai and the establishment of a Communist or Communist-dominated government there.

Mr. Butterworth reviewed briefly the facts regarding evacuation of U. S. nationals from China, emphasizing (1) that only those nationals were being urged to withdraw who had no compelling reasons to remain; (2) that no change is contemplated in the continuing functioning of our consular establishments, indicating by hypothesis that American missionary and business establishments might decide to do likewise; and (3) that dependents of consular personnel are not being ordered to evacuate although travel is being authorized for the dependents of those officers and employees who so desire.

For Mr. Kopelman's confidential background information, Mr. Butterworth explained that the Department could not advise American businessmen and missionaries to remain in China, thus incurring a share of responsibility for any untoward results, but that on the other hand it was not desirable to urge American representatives of U. S. organizations having considerable interests and stake in China to evacuate, leaving those interests without representation. Also for background information, Mr. Butterworth expressed his personal view that the period of great danger in Shanghai is likely to occur following a breakdown of civil authority and prior to the establishment of any new regime—rather than as a result of occupation by the Communists. In this connection, Mr. Butterworth stated that apparently a large number of Americans in Shanghai are being dominated in their thinking with regard to the present situation by their experiences in 1941 following Pearl Harbor. He emphasized that the two situations are in no way parallel: that while in 1941 there was the imminent threat of international war involving the U. S., the situation existing today is one of civil strife within China with no threat of war for the U. S. Mr. Butterworth indicated that he had supposed that the majority of essential American businessmen and missionaries with many years of experience in China would adopt the traditional attitude of "sitting out" changes in the governmental structure.

Mr. Kopelman indicated his understanding of and general agreement with Mr. Butterworth's statements. He said, however, that in the case of the Shanghai Power Company there was a real question

whether fuel would continue to be available for operating the power plant. He stated that the coal supply was critical and that oil was being used predominantly, but he felt that there was no assurance that oil imports would continue in the event that Shanghai was occupied by the Communists. Mr. Butterworth said that he could give no indication as to what attitude the U. S. might adopt with regard to trade relations with Communist areas in China—since that decision had not yet been made—but he mentioned the fact that trade between the U. S. and Communist countries of Europe was taking place.

Mr. Kopelman assured Mr. Butterworth that he would consider this conversation as of a confidential and background nature and that he would communicate the pertinent portions to Mr. Hopkins in Shanghai requesting that essential personnel of the power company be retained on an indefinite basis.

124.018/12-148 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 1, 1948—1 p. m.

1742. Dept refers plan retain platoon Marines and one APD⁸³ Nanking for guard duty and possible evacuation Emb staff event mob violence develops interim between departure Govt arrival Communists.

Dept foresees following possible disadvantages use Marine guard (1) presence Marines might have inflammatory effect Chinese (2) killing or wounding Chinese result Marine action would likely inflame large mob against Emb impossible control by small Marine detachment (3) as in Mukden Communists might demand surrender all arms Emb personnel with resulting embarrassment if Marines required surrender arms and in any case withdrawal of Marines following control by Communists would doubtless be surrounded with difficulties and might well result in the perpetration of indignities on them. Dept judges Emb contemplates spreading Marines over several compounds and observes that small number Marines in each might well provide excellent opportunity agitators incite mob to violence in hope of embarrassing US rather than expected deterrent effect.

You will appreciate from foregoing that Dept's principal concern is to provide maximum safety for Emb and that Dept has some doubts that advantages from presence Marines outweigh disadvantages and increased dangers listed above. You therefore requested reconsider request for Marines in light foregoing having in mind other offices in China face similar situation without Marine guard and considering

⁸³ High-speed destroyer-type transport.

whether presence Marines will substantially increase safety over reliance other protective measures such as requesting assignment Chinese police guard, electrification of wires on Emb compound wall and stationing unarmed Chinese guards. Please give Dept benefit your second thoughts regarding this matter.

LOVETT

393.1115/12-248

The Secretary of the Navy (Sullivan) to the Secretary of State

WASHINGTON, 2 December 1948.

MY DEAR MR. SECRETARY: Commander, U. S. Naval Forces Western Pacific, in his despatch 300529Z (November),⁸⁴ a copy of which has been furnished you, makes certain proposals which he considers are essential for the orderly evacuation of U. S. nationals from Shanghai and Nanking, and the protection of U. S. lives and property in the event of emergency. He considers that the Shanghai U. S. Army military police battalion and the Air Force personnel engaged in the partial operation of the Kiangwan Airfield at Shanghai, both of which units are now under JUSMAG command, are the most important elements in his evacuation and protection plan.

The Joint Chiefs of Staff, in acting on the proposals of Commander U. S. Naval Forces, Western Pacific, were agreeable to the retention of the aforementioned Army and Air Force personnel in their present functions in Shanghai, provided it met with concurrence of the State Department. The time of transfer of those components from JUSMAG to Vice Admiral Badger's command they considered to be a matter for decision at an appropriate time.

As you are aware, Vice Admiral Badger has the responsibility for the coordination of sea evacuation of U. S. nationals, and other friendly foreign nationals, as dictated by humanitarian motives and as directed by the U. S. Ambassador, on a space available basis. His plan, the formulation of which was coordinated with the Ambassador, provides for the use of force as necessary for the protection of U. S. lives and property in connection with the evacuation when circumstances so dictate. It has not as yet, however, been necessary for him to land additional forces, other than the 43 marines at the Embassy, Nanking, which were requested by the Ambassador, nor is it anticipated that other than small components will be so employed in other localities with the exception of Tsingtao, which has been specifically previously provided for.

⁸⁴ Not found in Department files.

In informal discussions with representatives of the State Department the question arose as to the limitations of Vice Admiral Badger's authority in connection with the use of armed components to provide protection indicated by circumstances. I feel confident that you will agree that the rapidly changing situation in China necessitates vesting in the local commander the necessary authority for accomplishment of his task. If, however, the policy of the State Department be otherwise then it is essential that Vice Admiral Badger be so apprised.

It is requested that I be informed at the earliest whether you concur in the retention of the specified JUSMAG Army and Air Force components at Shanghai; if not, whether you concur in the substitution of comparable Marine forces. Further, your views are solicited as to the policy to be followed relative to the landing of minor Marine forces at other points of evacuation as may be necessary to provide for the protection of U. S. nationals and property in connection with evacuation.

Sincerely yours,

JOHN L. SULLIVAN

393.1115/11-3048: Telegram

The Acting Secretary of State to the Consul General at Shanghai
(Cabot)⁸⁵

WASHINGTON, December 2, 1948—6 p. m.

2078. Priority questions re "last minute evacuation or repatriation" urtel 2580 Nov 30 rptd Nanking 1946 raise basic question continuing availability transportation facilities until moment Comm entry which Dept not in position answer. Dept fails perceive, however, why assurances or guarantees extended to US business and missionary personnel should be any broader than those extended Dept personnel who remaining their posts. We cannot, for example, guarantee Caltex Tientsin that in event personnel fail take advantage evacuation facilities presently offered there will be any "last minute" facilities prior to Comm takeover. On contrary, as soon as airfield is threatened there will be no means of providing additional evacuation facilities without incurring danger of armed conflict with Comms which is not policy of this Govt to promote. Nor can we assure Shanghai Power Co. of "full protection", which would by definition include armed intervention, following Comm occupation Shanghai. US businessmen and missionaries in China have long recognized that there are certain risks incident to their professions not shared by persons similar professions in US. Dept does not, however, believe

⁸⁵ Repeated to the Ambassador in China as telegram No. 1757. Notation on the original: "Cleared with Sec. Marshall."

present risks in remaining China comparable to those existing 1941. Statement reftel that Americans "consider situation not essentially different today" without justification from past experience other areas China.

Indication reftel that American businessmen consider present and possible future US aid program to Nationalist Govt and rumors re revival AVG as prejudicing their position vis-à-vis Comms appears inconsistent when viewed in light their statement that assurances retention US consulates "not sufficient since they feel ConGen personnel may have some official immunity". As ConGen aware, Chi Comm anti-American propaganda has been directed against US "imperialistic" Govt and authorities and not against American people, and individual US citizens have for most part recd courteous and correct treatment in Comm territory. Would therefore appear risk sustained by US consulate personnel (who lack diplomatic immunity) in remaining considerably greater than private US businessmen and missionaries.

For your info, question of additional aid to Nationalist Govt beyond present commitments under China Aid Bill ⁸⁶ one for Congressional decision as no such authority presently exists. Possibility of revival AVG has not been broached to Dept and US Govt support or tacit approval any such scheme extremely unlikely.

Re Shanghai Power Co., Vice Pres John Kopelman called at Dept recently to discuss question evacuation or retention American key personnel and was informed in confidence Dept's thinking along lines Deptel 1691, Nov 23 to Nanking rptd Shanghai 2004. Kopelman informed Dept's attitude toward possible trade relations between US and Comm areas China not yet crystallized, but it was pointed out that trade between US and Comm countries in Europe is taking place. Kopelman informed Dept in subsequent telephone conversation Bullitt ⁸⁷ had stated in conversation with Hopkins [of] Shanghai Power Co. that Comm occupation Shanghai would result in US Govt adopting "blackout policy" re trade relations. As indicated above Dept has not yet determined policy this regard and no foundation exists for Bullitt's alleged statement. Moreover, Dept has not approached oil companies re possibility embargo oil shipments areas occupied by Comms as indicated reftel. You are aware from your experience in Yugo of conditions under which East-West trade is being conducted.

Dept also understands British ConGen Shanghai has informed key Brit personnel of detailed plans for concentration all Brit subjects

⁸⁶ China Aid Act, Title IV, approved April 3, 1948, 62 Stat. 158; for correspondence on this subject, see pp. 442 ff.

⁸⁷ William C. Bullitt, consultant to U. S. Congressional Joint Committee on Foreign Economic Cooperation and former Ambassador in the Soviet Union and in France.

in semi-protected compounds in event mass rioting for temporary period during threat violence. Dept assumes ConGen has prepared similar plan and recommends it be made known to key American citizens immediately irrespective possibility circulation such info might convince few "non-essential" Americans no need to evacuate. Pls report urgently.

With above considerations in mind, Congen authorized orally assure key American citizens (by name if desirable) in US business, educational and missionary organizations they will be given identical consideration with regard to evacuation *in extremis* or repatriation following Comm occupation as Consulate staff in any arrangements which may be made. However, it is not expected there will be any last minute evacuation of Consulate staff even though as in Mukden rioting and disorders in one form or another are to be anticipated. You may also assure them Congen will extend protection all American nationals remaining Shanghai insofar as possible but that such protection may be limited to protection now afforded to US citizens (i. e. representation with local authorities) and may not include armed intervention. We will seek to avoid in every possible way resort to armed force for this purpose. If, as you indicate, unrest expected during turnover "relatively unimportant consideration", assurances that key US personnel will be accorded same consideration re evacuation or repatriation as Congen personnel should have effect of reducing apprehensions entertained by essential businessmen and missionaries re existence under Comm occupation.

LOVETT

393.1163/12-348

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth) ⁸⁸

[WASHINGTON,] December 3, 1948.

Participants:	Dr. Frank Cartwright	} China Committee of the Foreign Missions Conference
	Mr. Rolland Cross	
	Dr. John W. Decker	
	W. Walton Butterworth, FE	
	Richard D. Weigle, FE	
	Fulton Freeman, CA	

Dr. Cartwright, Mr. Cross and Dr. Decker called at their request to discuss the policy of this Government with respect to China as it affects missionary activity. By way of introduction, Mr. Cross explained that the group constituted the China Committee of the Foreign

⁸⁸ Drafted by the Executive Officer of the Office of Far Eastern Affairs (Weigle).

Missions Conference, which represents most of the Protestant mission boards. He explained that the China Committee had held a number of meetings in New York City with representatives of the major mission boards to pool available information on China developments and to determine as far as possible a common policy with respect to their missionary programs in China. Dr. Cartwright stated that the present interview was a result of the desire of this group to obtain such first-hand information as the Department might have available to guide them in their planning. I, in turn, expressed the Department's readiness to provide upon a confidential background basis information that might prove helpful.

Dr. Cartwright inquired first about the matter of evacuation policy. In reply I outlined the steps which had been taken in issuing the various warning orders and went on to explain that the Department did not expect that such warnings would be construed as requiring the evacuation of individuals with a compelling reason to remain. The Government could not advise Americans to abandon their stakes in business, education or missionary activity, nor could it advise them to remain with possible exposure to physical danger. I further explained the plan of the Department to maintain all of its present Foreign Service establishments in China even though the tide of civil war should pass over them. Female clerks and dependents of Foreign Service personnel were being given the option of transfer and evacuation respectively, but the decision in each case was being left to the individual without pressure being exerted upon him. It would therefore seem that the decision to evacuate or to remain might similarly be left to each individual missionary after he had been made fully conversant with all the facts in the situation.

Mr. Cross asked whether the British were taking parallel action with respect to evacuation of their nationals. He intimated that reports had been received from some missionaries to the effect that British nationals believed this Government was unduly alarmist about the situation. Mr. Freeman thereupon produced a copy of the warning notice issued to British citizens in North China and invited attention to the fact that it predated the American warning by three days. I also mentioned the complication introduced into the general situation by the presence of the large Joint U. S. Military Advisory Group, a quasi-military organization subject to orders and not to voluntary action. The fact that dependents of this group had been ordered out of China by a certain date had perhaps contributed to the uneasiness in Nanking.

The question was then asked as to the probable treatment of American nationals remaining after the Communist take-over. In reply to this I could make no predictions but described the experiences of

the personnel in the Consulate General in Mukden. The greatest danger to American lives and property probably would arise in any interregnum period between the disintegrating civil authority of the National Government and the establishing of the succeeding Communist regime. If the experiences at Mukden could be regarded as a reliable precedent, one might envision no very great difficulties during this first phase of Communist occupation. The main question would arise in the second phase when it would be difficult to predict the success of the Communists in executing their vast task of consolidation and administration and their possible attitude toward Americans, both in the field of business and in the area of Christian missionary activity. I pointed out that the Communists as a successor government would be charged with the heavy responsibilities that normally devolve upon the government of a state as it enters into intercourse with other nations. Mr. Weigle suggested in this connection that the need of the Communists for certain materials from abroad might prove a restraining influence in their treatment of foreigners.

Dr. Decker then said that he assumed it to be a corollary of American policy as already described that this Government would not become involved in a military way in the civil war. I acknowledged this to be a cardinal point in this Government's China policy and pointed to the fact that a Republican Congress and a Democratic President had approved such a policy in passing the China aid provisions in the Economic Cooperation Act.

This prompted a query as to the amount of military supplies purchased under the 125 million dollar provision which had actually been shipped to China, to which I replied with the latest figure of approximately 30 per cent. At this juncture it seemed appropriate to insert the advice which the Department has received from China that the losses suffered at Tsinan and subsequently have been due to a lack of the will to fight on the part of the Nationalist troops, rather than any deficiency in equipment and ammunition.

Dr. Decker asked whether the Communist treatment to be expected in North China would be less severe than that in the Yangtze Valley, which is the traditional seat of the Nationalist Government. I admitted that the people of North China were probably better adjusted to a Communist take-over by reason of the fact that the cards had been on the table for such a long time that all could see the probable course of future events. Shanghai, to my mind, presented the likeliest scene of possible trouble in the interim period because it is a large metropolis containing questionable and lawless elements, as well as a great mass of individuals close to the starvation level. I made it clear that the United States would not undertake, alone or in concert with other powers, to provide a police force during the interregnum period.

American naval units stationed at Shanghai have been augmented, however, and an attempt would be made to extend appropriate aid to American citizens in the event of an emergency.

The question was then asked as to the possibility of obtaining passports for various categories of missionaries returning to their stations in China or going out under the mission boards for the first time. I indicated that the Department was at present scrutinizing each request very closely and that a compelling reason would have to be shown before favorable action could be taken. Mr. Cross said that the boards naturally appreciated the illogic of granting passports to prospective travellers to China at the same time major efforts were being expended to evacuate personnel from that country. He indicated, however, that it would be exceedingly desirable to obtain permission for the return to China of certain key personnel and offered to have the Foreign Missions Conference serve as a screening agency for passport requests from the various participating boards. I indicated that this would be extremely helpful to the Department and suggested that Mr. Cross write to Mr. Freeman or Mr. Weigle furnishing the Department with a list of the member boards.

In conclusion, Dr. Cartwright asked whether there were any other way in which the Foreign Missions Conference could be of service to the Department. I responded by acknowledging the helpfulness of certain information which had been furnished the Department in the past emanating from missionaries in the field and hoped that the boards would feel free to forward at any time letters or excerpts from reports which the Department might find useful. Mr. Cross promised to circularize the mission boards in this connection.

124.018/12-348 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 3, 1948—6 p. m.

[Received December 4—6 : 57 a. m.]

2412. I have reconsidered question of use Marines Nanking (Deptel 1742, December 1) and have discussed matter with ranking officers my staff. We are unanimous in belief that character of service to be rendered by Marine guard and precautions we have taken will afford us valuable protection with minimum risk.

Following considerations have led us to that conclusion :

1. Danger we envisage is only from rabble and disorganized and retreating soldiers after municipal authority has collapsed and until such time as Communists have entered city and assumed control. On mature consideration we decided we could not rely upon Chinese

police guards or upon electrification of wires around Embassy compound. We have, however, arranged with the local military police to have stationed in our general section of the city a company of military police which has been instructed to prevent rioters and disorganized soldiers from entering the area. We felt, however, that even these military police did not afford adequate assurance of protection. We, therefore, turned to the Marine guard idea.

2. We are endeavoring concentrate personnel in chancery compound and in 84-85 Shanghai Road where Ambassador resides. We have stationed Marine guards at strategic points at those compounds. These points were selected with view to impressing upon passing public that compounds are adequately protected by first rate guards. It is our hope that with public knowledge of presence guards looters or rioters will go elsewhere where they are less apt to encounter armed resistance. Large American flags and notices in both English and Chinese have been affixed to compound gates and there can be no question as to identity property. Even should rioters threaten compounds, we are all in agreement they could be dispersed, if necessary, through use of tear gas without firing shot. If, however, there are indications of organized anti-foreign demonstrations or other reasons to believe mere presence of Marines at 84-85 Shanghai Road will be insufficient to deter rabble, we plan immediate evacuation persons resident those compounds to chancery compound on Sikong Road where Marine platoon is confident it can afford protection until such time as all personnel could be evacuated to APD. Adequate communication facilities between compounds is being established.

3. Embassy has greater immunity under international law than Consulates. We expect Communists upon arrival will, at least in the beginning, be correct in their attitude toward Embassy and that, accordingly, when we explain purpose of presence Marines and our intention immediately to reembark them aboard APD when Communists have established authority, Communists will not molest Marines or seek disarm them. APD is remaining here to care for remote possibility that situation may so deteriorate as to require actual emergency evacuation all personnel. It will stay out of line of fire and will depart with Marines as soon as Communists have taken over city and established authority.

In view of above considerations we hope Department will approve our plan.⁸⁹

STUART

893.48/12-348 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 3, 1948—8 p. m.

[Received December 3—1 p. m.]

2637. Question has naturally arisen what assistance in evacuation we will give to certain prominent Chinese closely identified with

⁸⁹ The Acting Secretary of State replied to the Ambassador in China in telegram No. 1802, December 10, 4 p. m.: "In view urtel 2412 Dec 3 Dept concurs."

American activities in Shanghai. Two cases in point are Woo Kya Tang, editor of the *Shanghai Post*, whose trenchant editorials have trodden on a good many toes, and Dr. Henry Lin, president of Shanghai University, who is I believe more worried because of his connections with British than because of those with Americans. Other important cases will certainly arise.

I am extremely hesitant to recommend any help in such cases since Navy already has its hands full evacuating Americans and has decided it cannot help other foreign communities even in emergency. Nevertheless, both for humanitarian reasons and for our own interests I feel that we might come to conclusion that we should do something for such cases as those mentioned above.

I would appreciate Department's views on this delicate question. Should Department feel any positive assistance desirable, numbers receiving it must be severely limited.

Sent Dept 2637, repeated Nanking 1990.

CABOT

893.796/12-448 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 4, 1948—3 p. m.

[Received December 4—4:25 a. m.]

2643. Civil Air Transport has completed movement all major equipment Canton. All personnel with exception few top level officers moving to Canton next few days. Top level officers such as Chen-nault, Willauer, Way will make offices at Hungjao Airport in order be close airport in event hasty departure Canton necessary.

Sent Department, pouched Nanking 1992.

CABOT

393.1115/12-248

The Director of the Office of Far Eastern Affairs (Butterworth) to the Assistant Chief of Naval Operations (Wooldridge)

WASHINGTON, December 4, 1948.

DEAR ADMIRAL WOOLDRIDGE: Since Admiral Badger and General Barr should receive immediate instructions, I am authorized thus to reply to that part of the letter which the Secretary of the Navy addressed to the Secretary of State under date of December 2 respecting the disposition of the U. S. Army Military Police Battalion stationed at Shanghai. The other questions raised in Secretary Sullivan's letter will be the subject of a further communication.

The Department of State is in agreement with the recommendations made by General Barr in telegram no. 776 OAGA dated December 2, 1948,⁹⁰ that the 701st MP Battalion be evacuated from China with the Joint Military Advisory Group and pending such evacuation, they should remain under the command of JUSMAG.

We note in Admiral Badger's telegram 300529Z (November) ⁹⁰ that Marine units to replace the Military Police Battalion will be quartered in the Naval Port Facilities at Shanghai. It is this Department's understanding that this step is purely a temporary expedient for the purpose of assisting in evacuation of U. S. nationals and protection of JUSMAG stores. I am instructed to request information as to what extraordinary steps are to be taken, in agreement with the Department of the Army, for the removal of the stores so that with their removal in large part and the effective completion of evacuation of American nationals, the Marines can be withdrawn from shore and put afloat. In the meantime, the Department would appreciate it if the Navy Department would communicate with Admiral Badger and obtain from him information as to what duties in connection with evacuation, under present circumstances, he proposes to assign to the Marines and at what places within the city of Shanghai.

You will have noted that in accordance with instructions from Mr. Lovett a copy of Shanghai's telegram no. 2610 of December 2 ⁹¹ was sent today to the Secretary of the Navy and the Chief of Naval Operations; that this telegram indicates that the British Ambassador in China is opposed to the landing of British troops in Shanghai to preserve law and order.

Sincerely yours,

W. WALTON BUTTERWORTH

393.1115/12-648 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 6, 1948—6 p. m.

[Received December 6—2:54 p. m.]

2665. Deptels 2077 ⁹² and 2078, December 2. Navy with Consul General's assistance has prepared detailed plan for protection and possible emergency evacuation of Americans from Shanghai area. Plan calls for 5 stages.

1. Preliminary.
2. Precautionary, after disturbances start.
3. Concentration.

⁹⁰ Not found in Department files.

⁹¹ *Ante*, p. 359.

⁹² *Ante*, p. 360.

4. Evacuation.

5. Evacuation of military; stages 3 and 4 to be put into effect by Senior Naval Officer and Consul General in agreement and if possible after consulting Embassy.

Plan calls for Consul General to notify American citizens if and when precautionary stage declared; Consul General has prepared alternate means of notification to function even after utilities not functioning. Americans would be told to proceed to collection points at which they would be processed by Navy teams with Consul General's assistance and taken under armed convoy to protected concentration points where they could be fed, quartered and evacuated if this proves necessary; require Armed Forces to be primarily supplied by Navy and JUSMAG with possible reinforcements from outside. Forces would, of course, be used only to assure safe evacuation of Americans, citizens and not either to maintain public order or to protect American property. Intermediate evacuation point probably Fukuoka, Japan.

Some 3 months ago we formed a small civilian committee to consult with us and aid us in certain essential features of plan. On November 30, I called together a group of some 50 leaders of American community and described to them points in plan which it seemed desirable that American community should know, for example:

Alternative means of notification by groups, and list of what Americans should bring with them to points of collection. We are keeping further points of plan confidential for the present because (1) we do not wish to be overwhelmed by stampede of other nationals seeking refuge, (2) we do not wish possibly interested groups to interfere with smooth operations of our plans and (3) see below.

Prospective withdrawal of JUSMAG from Shanghai area is necessitating drastic revision of plans and Admiral Crawford⁹³ in command of evacuation is just returning from conference with Admiral Badger. Navy confronted with need of assuring protection of points essential to smooth operation of plan has reduced up-town collection points to one. I have insisted that Americans must have at least two alternate up-town points at which they can find temporary refuge. We are now hard at work making necessary revisions in original plan. Until this last development we have been steadily well ahead of British and other countries in our planning. We hope to establish protected routes between American, British and French collection points. British plan is substantially similar to ours but lacking adequate armed support it has had to depend more upon civilians and has therefore received considerable publicity. Consul General has always informed American citizens that we, as all posts, have emergency plan but I

⁹³ Rear Adm. George C. Crawford, Commander of Amphibious Group No. 3 and Commander of Task Force 78.

feel that Department is right in thinking November 30 meeting tended to assure American community further.

Some feeling in American community that it should be entrusted with larger share in execution of plan, but Navy believes greater degree of civilian participation might result in confusion. I have made it emphatically clear and Navy concurs that plan will not be put into operation without my express agreement.

Sent Department 2665, repeated Nanking 2009.

CABOT

124.933/12-648 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 6, 1948—6 p. m.

[Received December 7—1:28 a. m.]

2435. With evacuation US dependents from Nanking and with intention Chinese Government evacuate to places of safety dependents its personnel (Embtel 2434, December 6⁹⁴), there is increasing pressure on us from our Chinese staff to assist in evacuation their dependents. Our loyal Chinese staff gives every indication of remaining loyal in any event but they would be happier and their morale would be strengthened if they could have the same assurance we have that their families are in places of greater safety than Nanking. Many desire to send their families to their native districts where they would merge into the community and might expect to be safe until situation clarifies. They have been unable to save funds for this purpose and have appealed to us for transportation at US Government expense. Maximum total cost would not exceed \$3,000 and might be much less, depending on availability transportation those seeking evacuation.

If Department can authorize expenditures not to exceed that amount for purpose evacuation families Chinese staff, it would undoubtedly improve morale alien staff with resulting benefit efficiency Embassy. We strongly urge, therefore, that if possible such funds be made available to us immediately.

STUART

893.00/12-648 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 6, 1948.

[Received December 21—8:53 a. m.]

A-294. We have following comments to make in connection with current discussion of probable treatment to be expected by American businessmen who remain in CCP-occupied China:

⁹⁴ Vol. VII, p. 859.

To our knowledge, there is in theoretical writings of Mao Tse-tung⁹⁵ during at least past year nothing to indicate any desire for foreign businessmen, much less American businessmen, to continue their activities under forthcoming CCP or CCP-dominated govt. As Communists continue to win their victories and to expand their state power, there is no reason to expect their attitude to become more cordial. Mao's article of December 25, 1947,⁹⁶ entitled "Present Situation and Our Tasks" stated: "Owing to the backwardness of China's economy, it will still be necessary to permit the existence for a long period of the capitalist economy represented by the broad petty *bourgeoisie* and the middle *bourgeoisie* even after the nationwide victory of the revolution". However, when viewed in context, this promise of leniency toward free enterprise applies only to Chinese entrepreneurs, not to foreign businessmen. We know of no analogous quotation promising to permit existence of foreign business activity.

A more positive statement is found in Communist North Shensi broadcast of November 21 which contained a veiled threat to foreign business interests. This broadcast, which purported to be the last part of an article written for Singapore newspaper by Hu Yu-chih, Director of the Chinese Democratic League in Malaya, described economic success achieved in liberated areas and hinted at program of autarchy for China in following sentence: "Imperialism has always been conducting commodity aggression against semi-colonial China but today the Liberated Areas people have defeated this imperialist aggression and established a self-sufficient, independent and free national economy". CCP attitude toward foreign enterprise in China was reflected in another passage of same broadcast which stated that "the Chinese people have also conquered the economic aggression of imperialism".

From still another viewpoint we are skeptical of future of American business in China. If Marxian political theory lends itself to any predictions it is to those that Marxian state will nationalize industry and set up foreign trade monopoly. We have so far heard out of Manchuria only vague reports of a planned economy, but we do know that it is developing. In confirmation we cite Dairen's tel Nov. 20 sent Nanking 103, rptd Dept 216⁹⁷ which quoted Dairen newspaper as stating that in light of unprecedented accomplishments of Soviet industry and liberation of all Manchuria CCP must achieve greater production in Northeast through increased planning along Soviet lines.

⁹⁵ Chairman of the Central Committee of the Chinese Communist Party (CCP).

⁹⁶ For summary, see telegram No. 65, January 9, 6 p. m., from the Ambassador in China, vol. VII, p. 28, and memorandum of January 12 by the Chief of the Division of Chinese Affairs, *ibid.*, p. 30.

⁹⁷ Not printed.

We do predict that economic life in CCP-controlled China during forthcoming period will approximate that of Russia during period of Lenin's New Economic Policy from 1921 to 1927. But we would like to point out that even during that period foreign business in Russia was very badly treated. Developments in Soviet satellite countries in Eastern Europe during last 3 years provide additional confirmation of fact that American business in Communist countries fares poorly even during transition period from free enterprise to Soviet-type economy.

STUART

393.1115/12-748

*The Assistant Chief of Naval Operations (Wooldridge) to the
Director of the Office of Far Eastern Affairs (Butterworth)*

WASHINGTON, 7 December 1948.

MY DEAR MR. BUTTERWORTH: I am in receipt of your letter of 4 December, wherein it is noted that the Department of State is in agreement with the recommendations made by General Barr that U. S. Army Military Police Battalion be evacuated from China with other JUSMAG personnel. It is further noted that the other questions raised in the Secretary of the Navy's letter of 2 December would be the subject of future communication from the Department of State. The Secretary of the Navy's inquiries which remain unanswered are:

a. Whether State concurs in retention of JUSMAG Air Force components at Shanghai, (this refers to Air Force personnel at Kiangwan);

b. Whether State concurs in substitution of comparable Marine Forces for the JUSMAG Army and Air Force components at Shanghai;

c. State Department views as to the policy to be followed relative to the landing of minor Marine Forces that may be necessary to provide for the protection of U. S. Nationals and property in connection with evacuation.

With reference to your inquiry concerning the protection and removal of JUSMAG stores, the Department of the Army, on 2 December, issued instructions to the Chief of JUSMAG covering the disposition of Army and Air Force stores and equipment under the custody of that activity. The plan for disposition of the subject stores and equipment entails no obligation or responsibility on the part of the Navy for either its protection or transportation.

You will appreciate that it is impracticable, at this time, to provide even a tentative date as to "the effective completion of evacuation of American Nationals." A cut-off date beyond which the evacuation

task of the Navy terminates will, because of its significance, require governmental decision and is therefore not one to be made by the Department of the Navy.

Enclosed herewith is a copy of Admiral Badger's despatch which sets forth in considerable detail his planned action in the Shanghai area with respect to the protection and evacuation of U. S. Nationals and other specifically designated friendly foreign nationals.

Sincerely yours,

E. T. WOOLDRIDGE
Rear Admiral, U. S. N.

[Enclosure]

*The Commander of Naval Forces in the Western Pacific (Badger) to
the Chief of Naval Operations (Denfeld)*

No. 050715Z

[TSINGTAO,] 5 December 1948.

The evacuation of US and other nationals from China has been proceeding for some months and is virtually completed in North China and in the Yangtze Valley with Shanghai now remaining as the only important concentration of U. S. Nationals.

CTF 78 is assigned the Task of evacuating the Yangtze Valley area and the forces present are 1 CL, 1 APA, 2 APDS, 2 LSMS, 1 LST, and personnel assigned NavPort Fac Shanghai. Emergency Tasks. Evacuation US Nationals from Yangtze Valley and Shanghai protection within feasible limits against violence all feasible assistance to foreign nationals.

Details of situation. Sufficient warning and adequate means for evacuation all US Nationals have resulted in departure of all those desiring to leave the Yangtze Valley except Shanghai. Navy affording protection against violence and maintaining 1 Platoon Marines and 1 APD for Embassy at Nanking. Amphibious craft assisting in evacuation of material of JUSMAG, Embassy and US Nationals from Nanking by frequent trips to Shanghai. At Shanghai are about 2500 US Nationals representing about one-half normal US population. Others evacuated by Army and Navy transports commercial airlines and other available means. Capacity of naval ships maintained in Shanghai sufficient to embark all remaining US Nationals in event of emergency. Amphibious craft maintained as ferries from loading points to ships in harbor or lower Yangtze for transporting US or foreign nationals in case of emergency.

JUSMAG evacuating independently with some assistance from Navy.

CTF 78 has been directed to:

a. Coordinate with AmConGen Shanghai in the revision and simplification of approved evacuation plans to meet essential requirements

emphasizing the importance of initiating action prior to outbreak of widespread violence.

b. Advise US Agencies Shanghai including ECA, ESD and U. S. Consulate to amalgamate activities for increased security of records and activities and provide aid as necessary in the Glenline Building and Naval annex for that purpose. Both these properties on waterfront.

c. Augment the Security of the Glenline Building and Naval annex from forces available in ships present as situation requires.

2. Companies of Marines with appropriate supporting units now ready in *Bayfield* for movement from Tsingtao to Shanghai to carry out Shanghai evacuation plan approved previously by Embassy. Now awaiting release as directed your 032148Z.⁹⁸ After arrival Shanghai will billet aboard *Bayfield* until emergency warrants employment ashore.

Commanding General JUSMAG has been advised that all commitments of JUSMAG (except those activities essential to continued use Kiangwan Airfield by US aircraft) in connection with evacuation civilians in China may be discontinued on 10 December at his discretion by notifying CTF 78 and ComNavWesPac. CTF 78 has already been directed to cooperate all possible in the evacuation of JUSMAG personnel and material.

Consider job well in hand.

125.0093/12-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 8, 1948.

[Received December 8—6:30 a. m.]

2450. Marine plane with last group Nanking dependents departed today at 0730.

Sent Manila 54, repeated Department 2450.

STUART

393.1115/12-848 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 8, 1948—2 a. m. [*p. m.?*]

[Received 4:23 a. m.]

2452. [To Shanghai:] ComNavWesPac informs us that he is directing Admiral Crawford coordinate with you on revision approved Shanghai evacuation plans "to meet essential requirements emphasizing importance initiating action prior outbreak widespread action".

⁹⁸ Not found in Department files.

In participating in conference for revision this plan you should be guided by fact that Ambassador or his designated representative has sole authority to determine when situation requires implementation of plan including evacuation and protective features and that Navy or other agencies concerned with carrying out plan should not initiate action without prior instructions from Ambassador or his representative. In Shanghai area you are Ambassador's "designated representative".

Sent Shanghai 1231, repeated Department.

STUART

393.1115/12-848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 8, 1948—5 p. m.

[Received December 8—8:13 a. m.]

2701. ConGentel 2665, December 6, 6 p. m., repeated Nanking 2009. Discussions with Admiral Crawford re revision of emergency evacuation plan have shown that his ideas differ considerably from those of Admiral Entwistle⁹⁹ who was in command until December 1. I am continuing to insist on adequate protection for two uptown collection points in area where most Americans live but Admiral Crawford is reluctant to spread his available forces to protect these points. We plan to present this question to Admiral Badger who is due here in next few days. Draft of revised plan to be ready December 10; present plan can be implemented till about December 20.

Admiral Crawford wishes to have transport *Bayfield* come to Shanghai in immediate future with two companies of Marines in order that these Marines who are responsible for operation of plan is [to be] put into effect may familiarize themselves with local layout. He is most reluctant to reduce number coming by sending only those Marines who must be familiar with convoy routes, etc., and leaving behind those who would defend concentration points on waterfront where little knowledge of locale is necessary for efficient operations. I have acquiesced in this decision subject to possible reversal by Embassy and Department since I feel that we must accept Navy's decisions re military necessities. I am somewhat apprehensive that arrival of any Marines may start up further rumors which might be used as a propaganda weapon by wishful thinkers and elements unfriendly to us including perhaps disgruntled Nationalists. Admiral Crawford has agreed, however, that he will limit the number of Marines ashore at any one time outside of Navy annex to not more than 100. We trust this will

⁹⁹ Rear Adm. Frederick I. Entwistle.

prevent a recrudescence of recent rumors and not lead to any serious unfavorable repercussions.

Sent Department 2701, repeated Nanking 2022.

CABOT

393.1115/12-848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 8, 1948—6 p. m.

[Received December 8—8:15 a. m.]

2703. [To Nanking:] Embtel 1281 [1231,] December 8.¹ Navy has never shown slightest disposition to claim that emergency evacuation plan should be put into effect without my full agreement and I am sure that Admiral Crawford will raise no trouble in this respect in revision of plan. I shall, of course, endeavor to get Ambassador's agreement before declaring situation requires implementation of plan. Nevertheless, I appreciate designated authority Embassy gives me since time may be of the essence and moreover way events are now shaping up suggests that I may be altogether cut off from Embassy if and when crisis arises here.

All difficulties which have arisen so far in preparing original plan and in discussing its revision have been due to fact that conflicts have inevitably arisen between military necessities which Navy had envisaged and political and civilian necessities upon which I have felt compelled to insist. There is every disposition on each side to view other's viewpoint sympathetically and I am confident that we can work out our problems.

My principal concern is to have a new plan ready for implementation at earliest possible moment in order that we may have no embarrassing gap between time we are no longer able to implement old plan and time we have effective new one ready.

Sent Nanking 2023 repeated Department 2703.

CABOT

124.933/12-648 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 8, 1948—6 p. m.

1787. Dept appreciates morale problem affecting Chinese staff resulting evacuation dependents American personnel. (Your 2435 Dec 6) Refer our 1593 Nov 10. First para states policy on evacuation aliens. While wishes Chinese staff evacuate their families understandable

¹ Sent to the Department as telegram No. 2452, p. 921.

Dept does not believe desirable authorize such evacuation except "in extreme cases where principal officer believes safety or lives would be jeopardized under communistic occupation and change locus would lessen danger."

Other considerations contained first para Tel 1593 still believed controlling in decision not evacuate either Chinese employees or their families except in extreme cases.

LOVETT

393.1115/12-848: Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 8, 1948—7 p. m.

2144. Transocean airlines' representative seeking Dept's assistance obtain operating concessions on grounds heavy backlog US citizens Shanghai desiring evacuate. Dept's understanding is that adequate transportation provided meet any condition emergency. Pls advise urgently if in your opinion backlog US citizens Shanghai requires transportation facilities beyond those now provided. Tokyo and Manila requested provide similar info re US evacuees from China.

LOVETT

393.1115/12-948: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 9, 1948.

[Received December 9—8:23 a. m.]

2469. [To Shanghai:] Evacuation policy as agreed upon by Department, Embassy, and Naval authorities has been that foreign nationals would be accorded facilities on space available basis. Inquiries from foreign diplomatic representatives have been uniformly answered in this sense and this policy has been followed in evacuations by US facilities from North China and interior points. However, urtel 1990, December 3, sent Department 2637, states Navy "has decided it cannot help other foreign communities even in emergency." We would like to know basis this statement.

In your discussions with Navy of revised evacuation plan for Shanghai (see Embtel 1231, December 8²), consider carefully number foreign nationals involved and to what extent, if any, they could be included in emergency evacuation. One essential element to consider is destination evacuation ships, whether other point in China or non-

² Sent to the Department as telegram No. 2452, p. 921.

Chinese territory. If the latter, Navy could presumably only evacuate those aliens properly documented for entry such territory, a very small proportion total aliens desiring emergency evacuation. If it should prove, by reason of limited facilities or non-Chinese destination of ships, that in emergency only small fraction total aliens could be evacuated, Embassy and Department would be compelled reconsider statement made to foreign missions that their nationals would be evacuated on space available basis. This statement alone without frank and positive qualification that facilities extremely limited may encourage foreign nationals to stay on in illusory hope that when worst comes to worst Americans will take care of them.

Sent Shanghai, repeated Department 2469, Tsingtao for ComNav-WesPac.

STUART

393.1115/12-948

The Secretary of the Navy (Sullivan) to the Secretary of State

WASHINGTON, 9 December 1948.

MY DEAR MR. SECRETARY: Referring to my letter of 2 December requesting State Department's comments on certain questions with relation to China, it is requested that your answer cover the matters raised in Vice Admiral Badger's despatch No. 080145Z, copy of which has been furnished you previously.³

Particular attention is invited to Admiral Badger's assumption that his objective in providing protection to United States Nationals is "to safeguard U. S. Nationals and their properties in China to the limit of feasibility during any temporary loss of government control and police protection."

Sincerely yours,

JOHN L. SULLIVAN

811.3393/12-948: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, December 9, 1948—3 p. m.

[Received December 10—5:54 a. m.]

422. Mayor Tu Chieh-shih called on me yesterday afternoon and referring to press reports (since proved [to] be accurate) of landing of US Marines in Shanghai, said that he hoped a detachment of 800 or 1000 Marines could be landed at Tientsin. He said that it most important to keep up morale troops and he expressed opinion that

³ Not found in Department files.

present small detachment US Marines in Tientsin would have a very beneficial effect on morale troops North China. I listened to what mayor had to say but made no comment.

Sent Nanking 663 [664?], repeated Department 422.

SMYTH

893.00/12-1048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 10, 1948—1 p. m.

[Received December 10—2:38 a. m.]

2724. British Consul in speech Rotary Club played down possibility of disorders and consequent need for evacuation of Shanghai. He rather strongly intimated that all Britishers, except perhaps young children, should stay.

Sent Nanking 2043; repeated Department 2724.

CABOT

893.00/12-1048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 10, 1948—1 p. m.

[Received December 11—7:31 a. m.]

2485. Reference Shanghai's 2637, December 3, 8 p. m., to Department. Embassy fully shares Consulate General Shanghai's reluctance to recommend any assistance in evacuation of prominent Chinese public figures or Chinese who have been closely associated with Americans and whose lives would be jeopardized by a Communist take over. This problem seems to us closely related with the question of political asylum though there are certain obvious differences. In a sense, evacuation of Chinese could be construed as unwarranted interference in the internal affairs of China. Certainly no such evacuation should be based entirely on political considerations. On the other hand, we incline to believe that certain other factors might well suggest the kind of assistance Shanghai proposes.

In the case of Chinese who have closely and loyally identified themselves with American activities, we believe a case could be made that we have certain moral responsibility, particularly if it can be demonstrated that jeopardy to these individuals arises in any considerable measure from their American connections. There is nothing in current Communist attitudes to suggest that identification with US could possibly be anything but a liability to those under Communist domination.

Case of prominent political figures is more difficult. Here we refer to individuals such as K. C. Wu,⁴ Wong Wen-hao,⁵ Wang Shih-chieh,⁶ and O. K. Yui.⁷ Men of this calibre have held themselves aloof from unsavory aspects of Chinese politics, have unquestioningly and unselfishly devoted their lives to welfare of their country and have demonstrated beyond all doubt their genuine devotion to human principles for which US stands. There is no reason to believe that they would be given anything but short shrift under Communists or that they could make any real contribution to their country if they remained behind the iron curtain.

We believe, therefore, that on humanitarian grounds, and for the larger benefit of civilization, we would be justified in a final crisis and at their request in evacuating to places of safety in China those Chinese responding to above description.

Sent Department 2485, repeated Shanghai 1251.

STUART

893.00/12-1048 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 10, 1948—2 p. m.

[Received December 10—9 a. m.]

2727. Based on several ideas expressed to me, following possible course of action recommends itself to me as means for increasing chance of a peaceful turnover of power in Shanghai:

1. Police and firemen forces, 16,000 and 700 respectively, to be assured that if they maintain order during a turnover, they will be given a bonus of rice and of silver dollars (perhaps 50 to 100 pounds of rice and 10 silver dollars per man).

(a). ECA to furnish rice free or at nominal cost.

(b). Foreign business communities to furnish cash, perhaps to be matched by contribution by Chinese business community. Funds should be separate or wholly administered by foreigners in order to assure that foreign pledges are fulfilled and bonuses actually reach individual police and firemen.

2. I have discussed this proposal informally and confidentially with Lapham,⁸ Admiral Badger, British Consul General and presidents American and British Chambers of Commerce. All are favorably disposed and Lapham has agreed in principle to provide rice.

3 I believe scheme should include following:

(a). Undertaking that police would neither resist nor assist Communists' entry into Shanghai.

⁴ Mayor of Shanghai.

⁵ President of the Chinese Executive Yuan.

⁶ Chinese Minister for Foreign Affairs.

⁷ Governor of the Central Bank of China.

⁸ Roger D. Lapham, Chief, China Mission of the Economic Cooperation Administration.

(b). Undertaking that Nationalist soldiers would not resist within perimeter of Shanghai.

(c). Undertaking from Communists that they will permit Nationalist municipal authorities to leave unmolested with a reasonable interval after turnover and that no reprisal will be taken against police force as a group. Facilities for departure to be provided by foreign authorities if desired.

(d). Undertaking on both sides that there would be no sabotage, destruction or removal (except of personal effects) of civilian goods and property.

4. Since some understanding with Communists would be highly desirable if not necessary, I suggest this might be undertaken in Hong Kong. Perhaps British would be in better position than we to undertake this.

I urgently request instructions from Department whether I may explore scheme further and at proper moment discuss it with Mayor Wu. Many details would, of course, have to be worked out and difficulties may prove insuperable. Nevertheless, the scheme does seem attractive considering its relatively small cost compared to the stakes involved. Head of American Chamber of Commerce is discussing it, not mentioning me, with two or three trusted Chinese friends in order to get their assessment of probable reaction of police and firemen. We would not, for example, wish it to become a precedent for repeated blackmail but since scheme presupposes a turnover, we feel this danger is unlikely.

Sent Department 2727, repeated Nanking 2046.

CABOT

893.00/12-1048 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, December 10, 1948—4 p. m.

[Received December 10—5 : 30 a. m.]

426. ReEmbtel 226, November 30, repeated Department 2360. Substance Embtel conveyed to American businessmen concerned including Hodes, President Tientsin American Chamber Commerce.

With regard question possible increased military aid to National Government, Hodes commented that American businessmen in Tientsin are strongly opposed to extension of further American military aid to National Government.

Hodes said feeling of American businessmen here may be stated as follows: Previous US aid programs to Generalissimo's government here have been misused and in particular much American military aid, because of Government military incompetence and low troop morale, has fallen into Communist hands. There is no reason to

believe future military aid would be used any more effectively. Generalissimo's Government has lost confidence of Chinese people and continued military aid to Generalissimo's Government will arouse increasing resentment among non-Communist Chinese. Chinese faith in Generalissimo's Government has been destroyed by Government's military, political and economic incompetence and corruption.

With regard to Tientsin Chamber Commerce recommendation, contained in its memorandum of July 12 addressed to Mr. Lapham, that American military aid be given Fu Tso-yi in North China, Hodes said American businessmen now feel that, in view of Government debacle in Manchuria and Government defeats elsewhere, it is too late for such aid to be effective. (Copy of memo enclosed with ConGen's secret despatch No. 72 of July 13, copy sent Department).⁹

Sent Nanking 666, repeated Department 426.

SMYTH

393.1115/12-1048

The Acting Secretary of State to the Secretary of the Navy
(Sullivan)¹⁰

WASHINGTON, December 10, 1948.

MY DEAR MR. SECRETARY: Reference is made to your letter, dated December 2, 1948 to Secretary Marshall in which are set forth certain proposals by Vice Admiral Badger, Commander-in-chief of the U. S. Naval Forces in the Western Pacific relating to the limitations on his authority in connection with the use of armed components to provide protection for American citizens and property and concerning the use of U. S. Marine units to assume partial control and operation of the Kiangwan airfield at Shanghai.

Certain of the questions raised in your letter have been dealt with in a letter, under date of December 4, 1948 from Mr. W. Walton Butterworth, Director for Far Eastern Affairs, to Rear Admiral E. T. Wooldridge, Assistant Chief of Naval Operations. In this connection, it was the intent of the Department in this letter to indicate its concurrence with the proposal that comparable U. S. Marine Forces would be substituted for the JUSMAG Military Police Battalion scheduled to be withdrawn from China with the Joint U. S. Military Advisory Group.

These proposals raise the larger problem of United States policy toward China and the question of possible American involvement in the

⁹ Not found in Department files.

¹⁰ Marginal notation by the Chief of the Division of Chinese Affairs (Sprouse): "This letter has been cleared by Mr. Lovett with the President and the N[ational] S[ecurity] C[ouncil], 12-10-48."

Chinese civil war. It has been the consistent policy of this country that the United States must not become involved in the Chinese civil war and that the United States will not intervene militarily in China. Under present conditions the problems confronting the United States become largely political and not military problems and our actions must be guided by the larger policy considerations rather than by local military considerations. It is not believed desirable, therefore, that the decision with respect to the utilization of U. S. armed forces for the protection of U. S. lives and property in China should be left to Vice Admiral Badger or to local commanders under his control except in the most urgent circumstances involving serious danger to American lives from mob action when time and circumstances would not permit communication with the United States Ambassador or with the ranking U. S. consular officer on the spot. This principle is set forth in Section 3, 1, of Annex C of ComNavWesPac Operation Plan No. 103 of April 10, 1948.¹¹

This Department envisages the employment of U. S. armed forces solely for the protection of U. S. lives and perhaps certain U. S. Government property, during the interregnum between the collapse of the National Government's authority in any given locality and the establishment of control by a successor regime. It is not contemplated or desired that U. S. forces assume responsibility for the maintenance of law and order in any Chinese city except in small areas being used for the concentration of U. S. citizens in connection with their evacuation to points of safety and then only as an emergency measure. It is not contemplated or desired that U. S. armed forces landed at any Chinese city should remain ashore beyond that interregnum when they would provide protection for U. S. lives, and perhaps certain U. S. Government property, and such forces should be withdrawn at the earliest possible moment consistent with the safety of U. S. citizens, if possible prior to the entry of Communist forces into the city in order to minimize the possibility of conflict with such Communist forces.

In this connection, it should be noted that the British Ambassador¹² has opposed the landing of British troops to preserve law and order at Shanghai or the administration of Shanghai by a foreign committee. The Department has likewise informed the Consul General at Shanghai that it does not approve a suggested plan for the mobilization of an international police force at Shanghai which would include U. S. armed forces. It has pointed out that such action would involve the related problems of food supplies, and, in large degree, of the whole machinery for administration of the city, both certain to be intensified by the influx of Chinese refugees into any area under foreign police

¹¹ Not printed.

¹² Sir Ralph Stevenson.

control. The possibility of incidents created by the Chinese Communists or by elements of the National Government desiring to embroil U. S. forces with the Communists cannot be overlooked.

The proposal to utilize U. S. Marine units for joint operation, with the Chinese Air Force, of the Kiangwan airfield at Shanghai in connection with evacuation and protection plans appears to entail very serious danger of conflict with Communist forces. This airfield is a Chinese Government military airfield and, in the event of hostilities spreading to the Shanghai area, would be a logical target for Communist attack, either by direct assault or by infiltration tactics. It is believed, therefore, that U. S. Marine units should not be stationed at the Kiangwan airfield and that no U. S. armed services personnel should engage in joint operation of this airfield after the withdrawal of the JUSMAG Air Force personnel. If it is considered necessary to have the continued use of an airfield in the Shanghai area in connection with evacuation plans subsequent to the withdrawal of the JUSMAG Air Force personnel, this Department believes that arrangements should be made with the Chinese Government for landing privileges at the Lunghua civil airfield and that use of these facilities should be discontinued at any time that Shanghai and its environs come under threat of Communist attack. In this connection, it should be noted that under similar circumstances of civil war and disturbances in China in previous years, the evacuation of U. S. citizens has always been carried out by ship without resort to the use of aircraft and that the U. S. Navy now has at Shanghai sufficient shipping for emergency embarkation of the entire American community.

Sincerely yours,

ROBERT A. LOVETT

893.00/12-1048 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 11, 1948—3 p. m.

2161. Scheme outlined 2727 Dec 10 rptd Nanking 2046 for peaceful turnover Shanghai appears offer great advantages, but Dept somewhat concerned over method implementation and character "undertakings" recommended. Following Dept's preliminary views corresponding numbered paras reftel:

1 and 2. Dept concurs provided ECA in position furnish rice.

3 (a). This undertaking would appear essential for success plan.

3 (b). It would appear likely that Nationalist forces will offer little if any resistance within Shanghai perimeter and danger likely come from disorganized looting and rioting rather than organized resistance Nationalist forces.

3 (c). There would, of course, be no means assurance undertakings given by Comm agents Shanghai or Hong Kong would be respected. Question arranging unmolested departure municipal authorities after turnover raises problem what destination not under Comm control might be accessible. US Govt must not be put in position guaranteeing such departure.

3 (d) See 3 (c) above. While police might be requested accept such undertaking, removal Govt goods and property will undoubtedly continue until last minute. On other hand, Dept perceives no reason expect similar undertaking by Comms would be necessary, as certainly in their interest prevent insofar as possible any sabotage, destruction or removal.

Dept of opinion that, while plan has merit, US Govt participation should be limited to furnishing rice by ECA and that planning and implementation should be responsibility those foreign and Chinese groups who in own interests would presumably be prepared raise funds, approach Mayor Wu and arrange details. There would be no objection your suggesting matter to civilian groups, such as Chambers Commerce, Rotary Club etc, but you should remain in background giving personal and unofficial advice in your discretion and as deemed appropriate.

Keep Dept advised progress such planning.

LOVETT

811.3393/12-1348 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 13, 1948—4 p. m.

[Received December 13—7:42 a. m.]

2749. Reaction to Admiral Badger's speech appears mixed. It has been generally welcomed in Shanghai pro-Govt circles. Local market reacted favorably and general impression is that confidence has been increased. Both Mayor Wu and Wong Wen-hao have expressed themselves favorably regarding it to me.

All foreigners expect to benefit from possible Marine protection since, as the *Shanghai Evening Post* asserts, "in case of big trouble, the Navy can be depended on to endeavor to look after more than just our American community". British interests especially appreciate what is described as a change in American policy from evacuation to protection of Americans.

Other indications less favorable. Marshal Li Chi-sen¹³ has denounced our intentions to send Marines to Shanghai and obviously thinks we are going further than Admiral Badger indicated. Soviet colleague in talk with me made every effort to find out what was behind

¹³ Chairman of the Kuomintang Revolutionary Committee, Hong Kong.

our move and was obviously convinced we had ulterior purpose. He and French colleague seem somewhat of same opinion. Fear it is even conceivable that Russians may now decide to land own forces.

While the encouragement given to essential Americans to remain here is desirable, that unavoidably given at the same time to non-essential Americans is unfortunate development, inasmuch as an estimated 1000 of the latter group are still in Shanghai and as the *Shanghai Evening Post* observes, "there is a danger that some non-essential people in Shanghai may be so reassured as to think their projected trips aren't necessary".

The statement, in stimulating local morale, has also aroused in Chinese as well as foreign quarters unwarranted expectations, the later inevitable disappointment of which would probably have unfortunate consequence. Temporary nature of any Marine landings is not generally appreciated and it is reported that those interested in the prolongation of the Marines' stay might provoke incidents towards that end.

CABOT

393.1115/12-1348: Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 13, 1948—5 p. m.

[Received December 13—8:36 a. m.]

2750. Afternoon December 11, I attended conference on flagship Admiral Crawford at which he presented proposed revised plan for protection and evacuation if necessary of American Nationals. Revision made necessary by impending withdrawal JUSMAG. Revised plan approved as to Shanghai by me and will go into effect upon withdrawal JUSMAG.

New plan is less elaborate than former one and calls for use of one battalion Marines replacing JUSMAG forces; these Marines to be ship based. Precautions will be taken to avoid Marine embroilment in fighting.

Only 4 collection points established as follows: American school, Navy officer mess, New Development Building and Glenline Building. Emergency consular headquarters can be established in Glenline Building. Principal embarkation point is Naval Annex which is only such point to be defended. Three secondary embarkation points designated. American evacuees will be concentrated in ships until returned ashore or transferred to evacuation ships. Those alien relatives of American citizens and key alien employees of established American organizations placed in second preference category. Navy will provide immediate transportation from collection points to em-

barkation points and will assist officers of Consulate General in processing arrivals for eligibility at collection and embarkation points.

Light Marine guards to be provided during emergency for American utility and petroleum installations important to success of plan. Consulate General, as Ambassador's designated Shanghai representative, will have local authority in concert with Commander Task Force 78 to declare state of emergency. Consul General also will have sole power to designate alien nationals entitled to preferential status. Foreign nationals may be concentrated at Naval Annex rather than on board ships in discretion commanding officer. Facilities will be established in Naval Annex adequate to billet and feed 3500 evacuees. Commander Task Force 78 will establish headquarters Shanghai and will command operations. Commander naval port facilities Shanghai will be responsible for logistic support Task Force 78 elements ashore and evacuees.

Navy has agreed to organization of American community to insure immediate and complete dissemination of notice of emergency state and mutual assistance in reaching collection points. Location of these points will be revealed to American citizens with request that information not be disclosed to anyone outside of American community. Consulate General is working on restricted circular notice to American community and will convene civilian committee this afternoon to advise on civilian participation and alien priority list.

Sent Department 2750, repeated Nanking 2063.

CABOT

840.48 Refugees/12-1348 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 13, 1948—midnight.

[Received December 14—1 : 57 p. m.]

2755. ReEmbtel 1231, December 9,¹⁴ evacuation foreign nationals. Statement mytel 1990¹⁵ that Navy may be unable help other foreign communities even in emergency based on statement ComNav port facilities Shanghai December 1 who was unwilling assume any particular obligation to foreign nationals in view then existing uncertainty as to amount tonnage which would be available to him for evacuation purposes. In light Admiral Badger's recent statements and stationing of Commander Task Force 78 at Shanghai under revised plan with assurances of augmented space for evacuation purposes, outlook for alien nationals who may be entirely dependent on US facilities in emergency

¹⁴ Sent to the Department as telegram No. 2469, p. 924.

¹⁵ Sent to the Department as telegram No. 2637, December 3, 8 p. m., p. 913.

somewhat brighter. However, no specific obligation is being assumed to any aliens other than closely related dependents of American citizens and specified key alien employees of a few American organizations. Consulate General and Navy will make it clear that assistance, if any, which may be granted to other aliens must be on "means available, space available" basis. It is expected that this qualification, plus severe limitations on granting of priority status of aliens, will discourage foreign nationals from entertaining unwarranted hopes of US Naval assistance.

Navy has indicated no special concern over documentation of aliens with valid visas since presumption is that evacuation if to point outside Chinese territory would be to temporary safe haven under US military occupation when commanding officer could waive visa requirement.

Sent Nanking 2066, repeated Department 2755, Tsingtao 174.

CABOT

893.00/12-1548 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, December 15, 1948.

[Received December 15—5:09 a. m.]

541. Despite efforts BFGAT [*of CAT?*] and CNAC bring planes into Peiping yesterday they were unsuccessful in efforts obtain clearance local military authorities. American charter plane *St. Paul* landed today to embark certain prospective evacuees. Understand Chinese Civil Airlines have also scheduled two flights Peiping today. Local military forces still hold both fields and south field evidently currently useable. However, reference particularly CA [*ECA?*] telegram PEKECA 140485, December 14¹⁶ to Chief of Mission Shanghai, no flights American planes Peiping should be undertaken without prior checking with this office.

No Peiping-Tientsin trains ran yesterday and railway authorities state same position prevails today. Today's press reports that railway was damaged yesterday by Communist action between Wanchuang and Anting.

Sent Nanking as 799; repeated Department, Shanghai 532, Tsingtao, Tientsin.

CLUBB

¹⁶ Not found in Department files.

393.1115/12-1348: Telegram

The Acting Secretary of State to the Consul General at Shanghai
(Cabot)

WASHINGTON, December 15, 1948—6 p. m.

2191. Assume you have recd from Adm Badger copy Navy message quoting Dept letter Dec 10 to Sec Navy stating US armed forces China should be employed solely for protection US lives and certain Govt property. This letter approved by President and NSC.¹⁷

In view urtel 2750 Dec 13 stating Marine guards to be provided during emergency for US utility and petroleum installations Dept desires clarification installations to be afforded such protection. If installations consist only main Shanghai Power Co plant on Whangpoo below Bund and US oil company installations on water front easy of access to US Naval craft, Dept perceives no objection stationing US Marine units as guards with understanding such guards to be provided only during emergency and to be withdrawn immediately after interregnum between breakdown present local govt and establishment successor regime. Pls confirm.

Navy Dept concurs use Marine units as described above.

Dept leaves your discretion question discussing now with appropriate Chi authorities taking such action or effecting other arrangements when and if you deem use Marine guards necessary.

For your info former Amb Gauss¹⁸ states that from his experience US armed forces during times disturbances in past have guarded Shanghai Power Co main installation but have not furnished protection other private US property, except Stan-Vac installation which was source oil for US Navy.

Pls furnish Adm Badger and Adm Crawford copy of this message.

LOVETT

125.7146/12-1448: Telegram

The Acting Secretary of State to the Consul General at Peiping
(Clubb)

WASHINGTON, December 15, 1948—7 p. m.

262. Urtel 538, Dec 14,¹⁹ rptd Nanking 795, Shanghai 528. While Dept appreciates desirability American correspondents having access to communication facilities during turnover and after Comm occupation, believes use ConGen radio by correspondents unwise for

¹⁷ National Security Council.

¹⁸ Clarence E. Gauss, in consular service China, 1907-39; Minister to Australia, 1940-41; Ambassador to China, 1941-44.

¹⁹ Not printed.

following reasons: (1) if Comms insist on censorship news stories, use ConGen radio would place US Govt in position tolerating or tacitly accepting censorship which we have consistently opposed; (2) if news stories are "of nature which might compromise station in eyes Comms" and ConGen therefore refuses to send or insists on deletions, would in effect place ConGen in role of censor; (3) possibility of Comms stationing observer in ConGen radio room as suggested highly undesirable prospect.

Would appear probable that if Comms would agree permit US correspondents send stories via ConGen radio, they would also permit correspondents use Chinese public or private facilities which understood to be numerous in Peiping. ConGen could then inform Shanghai and Nanking of frequencies and times and news agencies could arrange monitor direct and transmit US via commercial facilities. Dept no objection your approaching Comms this regard in behalf correspondents pointing out desirability of continuing news flow from areas occupied by Comms reported by reputable American newspapermen.

Judging from reports of ConGen and Emb, would appear that interregnum if any will be brief. If, however, there is protracted delay subsequent breakdown Nationalist authority with resulting absence commercial radio facilities and prior establishment succeeding regime, Dept would perceive no objection ConGen sending strictly limited number news stories for correspondents pending end interregnum. ConGen should not, however, exercise any form censorship. On establishment local authority by Comms, ConGen should restrict use radio to regular official traffic only with possible exception occasional messages of urgent or important character for foreign consulates if no other facilities available.

LOVETT

811.3393/12—1648

*The Acting Secretary of State to the Ambassador in China (Stuart)*²⁰

WASHINGTON, December 16, 1948—noon.

1831. Following NSC decisions Dec 10 re use US armed forces in connection with evacuation US citizens China:

(a) US armed forces China should be utilized for protection lives and property US citizens only with concurrence of Amb or ranking US consular officer on spot, except in most urgent circumstances involving serious danger American lives from mob action when time and circumstances would not permit communication by Commander US armed forces with Amb or consular officer.

²⁰ Repeated to the Consul General at Shanghai as telegram No. 2200.

(b) US Marine units should not be stationed at Kiangwan military airfield near Shanghai, and no US Armed Services personnel should engage in joint operation this airfield after withdrawal JUSMAG²¹ Air Force personnel.

(c) If use airfield Shanghai area required for evacuation US citizens, authority should be obtained from Chinese Govt for use Lunghua civilian airfield, and use these facilities should be discontinued in event Shanghai and its environs threatened by Communist attack.

LOVETT

811.3393/12-1648: Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, December 16, 1948—7 p. m.

[Received December 16—9:25 a. m.]

455. Remytel 664, December 9 to Embassy (repeated Department 422), reporting hope of Mayor Tu Chieh-shih that detachment Marines be landed Tientsin.

Mayor Tu called on me 6 o'clock this afternoon. He said military situation for Tientsin very serious. Between 10 and 20,000 Communist troops arrived this afternoon at Hsilitou, 10 miles northeast Tientsin, with more coming and battle now in progress with 60 secondary [62d Army?], good but only 2 depleted divisions. Three regiments Communists observed coming from Lanfang to south of Tientsin. Situation Tangku even worse. Mayor said in Tientsin-Tangku area Government has only 87th Army (Youth Corps which he said very poor), 86th Army (defeated troops from Chinwangtao), depleted 62nd Army, and Tientsin local defense corps and police said 92nd, 94th Armies sent to Peiping area just before railway cut few days ago.

Mayor said he was sending his secretary, Peter Y. Chuan, to Tsingtao tonight or tomorrow by plane to see Admiral Badger to present to him Mayor's request that Marine detachment be sent to Tientsin to assist in maintaining order in city, as forces at Mayor's disposal not adequate to ensure protection of foreigners and others. Mayor referred to Admiral Badger's proposed despatch of Marines to Shanghai. Mayor asked for my comments. I replied that I could not comment as this was matter of high policy outside my competence.

Sent Nanking 692, repeated Department 455, Tsingtao, Shanghai 633, Peiping.

SMYTH

²¹ Joint U. S. Military Advisory Group.

893.00/12-1648 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, December 16, 1948.

[Received December 18—1:29 a. m.]

555. Peiping, south (Nankuan) airfield was subjected Communist artillery fire 9 a. m. today whereupon 7 of 8 CNAC and CAT planes on field immediately took off only one remaining presumably for VIPS. Chartered plane *Staul* [*St. Paul*] arriving 10 a. m. was therefore signalled off and failed to pick up second load of day.

Sent Nanking 811, Department 555, Shanghai 542, Tsingtao, Tientsin.

[CLUBB]

811.3393/12-1748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 17, 1948.

[Received December 17—2:31 a. m.]

2805. In press conference held jointly with Admiral Crawford December 15 with concurrence of Embassy, I informed press that Navy transport *Bayfield* would arrive Shanghai December 16 with two infantry companies of Marines plus a support and service group totaling 695 officers and men.

I emphasized that their purpose in coming was to protect American citizens in event of emergency and that they were not coming to maintain public order, to reestablish an international settlement or in connection with any other scheme of international action in Shanghai. Said that they were coming with the knowledge and consent of the Chinese authorities both national and municipal and that they would fully respect Chinese sovereignty. Added that men would remain aboard ship, would not be billeted ashore although there would be usual liberty parties and shore patrols and would not be here any longer than emergency required and stressed that no plans existed to bring further Marine contingents to Shanghai.

Admiral Crawford then gave some background data on the Marine contingent being sent to Shanghai. In answer to questions, I said that Admiral Crawford and I had been designated to determine what constituted an emergency requiring evacuation of American citizens. I added that Marines were coming primarily to protect lives of 2,000 Americans still in Shanghai in event an emergency evacuation became necessary and that it would depend on circumstances and their wishes whether they would in due course return to their homes or [be] removed from Shanghai areas.

Answering another question, I said their arrival this week has no significance. Asked if Marines would cooperate with the projected Shanghai Defense Corps, both Admiral Crawford and I replied with an emphatic "no". With regard to our evacuation policy I said there was no difference between plans discussed today and those Admiral Badger outlined on Friday. We still felt that it was advisable for nonessential Americans to leave Shanghai. With regard to other Americans, they must weigh risks involved in staying here against duties, responsibilities and importance of job they are doing here and reach decision themselves as to whether they should stay or not.

English language newspapers contained fairly full accounts of conference. While each omitted certain important points none has serious misquotations of our statements. Conference also prominently reported in Chinese press.

Sent Nanking 2107, repeated Department 2805.

CABOT

393.1115/12-1748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 17, 1948—1 p. m.

[Received December 17—8:51 a. m.]

2809. Deptel 2191, December 15. Navy has furnished us copy of Department's letter December 10 to Secretary of Navy. Navy emergency evacuation plans with which I agreed envisaged protection following American properties. 1, Shanghai Power Company, main installation AFL [*and?*] 3 substations. 2, Shanghai Telephone, 6 substations. 3, Caltex and Standard-Vacuum installations. Protection of first two highly desirable to facilitate orderly evacuation and of third to protect city from grave results which would follow if oil were fired and poured into swift tides of river. British have urged protection of utilities pointing out that this is in interest of entire city and plan themselves to protect British-owned waterworks, gas company and Shell installations. I have agreed primarily for other reasons given above. All inland points mentioned above will be held by a handful of Marines.

Navy agrees and we have publicly stated that action envisaged only during emergency; guards will be withdrawn immediately upon establishment of any *de facto* authority.

Copy of message furnished Admiral Crawford and forwarded to Admiral Badger. Sent Department 2809, repeated Nanking 2110.

CABOT

125.7146/12-1748 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 17, 1948—2 p. m.

[Received December 19—7:07 p. m.]

2551. [To Peiping:] We feel you should take no steps under new regime which might have effect of hastening alien control over your radio transmitter (urtel 538, December 14 to Department,²² repeated Shanghai 1528, Nanking 798). We recommend continue using transmitter for official traffic only as in past and that you do not take initiative in bringing it to attention of *de facto* authorities. If and when latter threaten close down or seizure of transmitter and you are forced to negotiate for its continued operation, you might at that time and in your discretion include in your discussions suggested service for American correspondents or press agencies. If some arrangement can at that time be worked out which does not prejudice use of transmitter for official messages and to which *de facto* authorities agree, there would seem to be no objection.

Embassy's principal concern is to safeguard your use of transmitter since without means of communication your continued presence Peiping is pointless. While we wish to be helpful to American correspondents, we have in mind Mukden's experience and undesirable publicity by certain American correspondents China of information coming out via that channel. As you know, we have had no word from Mukden now for one month.

Sent Peiping 261, repeated Department 2551, Shanghai 1284.

STUART

393.1115/12-1748 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 17, 1948—3 p. m.

[Received December 17—6:55 a. m.]

2812. Deptel 2200, December 16, noon.²³ Navy and Consul General entirely agree to points (a) and (c). Regarding point (c), no emergency air evacuation now contemplated; evacuation to be ship borne.

Respectfully request reconsideration of point (b) in light of following factors:

Navy desires to operate GCA²⁴ on JUSMAG withdrawal. This is only GCA in this area and is vital for air safety as Christmas Day accidents 1946 show. GCA services both military and civilian air-

²² Not printed.²³ Sent to the Embassy in China as telegram No. 1831, p. 937.²⁴ Ground Controlled Approach.

planes to safety. Navy also wishes to operate weather control and MATS Terminal. Other essential local US Armed Forces services such as Utility Squadron and Attaché's planes use this field. Transfer to Lunghwa impractical and Navy considers Lunghwa virtually as much a military objective as Kiangwan. Only service personnel and no Marine units now stationed Kiangwan; units would be sent there only on declaration of emergency to evacuate service personnel if necessary. Navy contemplates using Kiangwan only for convenience and to abandon it first sign of opposition or hostile act by any Chinese.

I concur with Navy's position in this matter.

Sent Department, repeated Nanking 2111.

CABOT

811.3393/12-1848: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 18, 1948—noon.

[Received December 18—7:26 a. m.]

2568. Admiral Badger has requested whether we desire him to accede request Mayor Tu for Marines Tientsin (Tientsin's 692, December 16, repeated Department 455, Shanghai 633, Peiping and Tsingtao unnumbered). We have replied as follows:

"Situation Tientsin unlike that Shanghai. Geographic and other considerations do not lend themselves so readily to measures safeguarding US lives and involvement civil strife highly possible. Accordingly suggest you do not accede Mayor's request."

Sent Tientsin 243, repeated Department 2568, Peiping 264, Shanghai 1289, Tsingtao 237.

STUART

893.00/12-1848: Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 18, 1948—5 p. m.

[Received December 21—11:59 a. m.]

222. Chinese who left Tsinan December 9 arrived Tsingtao December 17 reports signs of greater Communist pressure on foreigners Tsinan.

Presbyterian Bible classes originally attended by 100 now dwindled to 10. Explanation given they too busy.

Two inspectors placed in Presbyterian Middle [*Mission?*] school who more severe even than Japanese inspection in their day.

Although foreigners still have freedom movement, they constantly being asked whether do not wish travel Tsingtao, offers made expedite

trip. Americans understood determined stay although generally rosy picture painted by Bryant who left Tsingtao November 18 now changing. They believe Communists may ultimately force them out in order use mission and university property, eliminate observers and foreign relations problem. More than 10 Russian technicians seen Tsinan.

Rev. Mr. West, Presbyterian Mission head Tsingtao, states becoming more difficult get money to Tsinan.

STRONG

893.00/12-1948 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, December 19, 1948.

[Received December 19—8:34 p. m.]

CAT plane took off approximately 4:40 p. m. this afternoon from Tientsin Changkueichuang field under Communist small arms fire. Field now unsafe for further flights. Only two CAT American employees able to board departing plane.

SMYTH

893.796/12-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 20, 1948—3 p. m.

[Received December 20—3 a. m.]

2582. Ambassador has received following from General Barr December 20:

"For planning purposes it is desirable to inform you that there is a considerable amount of communications facilities presently being provided by the air division JUSMAG which will be withdrawn concurrently with the evacuation of JUSMAG. These facilities are located at Ta Chiao Whang and Kianwan airfields.

In view of fact that international airlines are using some of this equipment, I feel this matter should be brought to their attention. Specifically the facility which is used by the airlines is known as the Shanghai area control. The equipment now in place in this control is expensive and highly critical to the Air Force in other sections of the Pacific. The international airlines concerned are Pan American and Northwest Airlines, both US lines; BOAC, a British line; KLM, a Dutch line; and Philippines Airlines, a Philippine line. I suggest that these lines be notified that when JUSMAG is withdrawn the facility known as the Shanghai area control which is now operated by JUSMAG will no longer be available."

Please inform representatives all airlines named of foregoing with statement that if withdrawal this equipment will disturb their operations they should lay plans for any necessary alternate arrangements.

Sent Shanghai 1295, repeated Department 2582.

STUART

893.00/12-2048 : Telegram

The Consul at Tsingtao (Strong) to the Secretary of State

TSINGTAO, December 20, 1948—5 p. m.

[Received December 21—11:12 a. m.]

224. Re mytel 381 to Emb, rptd Dept 222, Dec. 18. Reliable Chinese source informed West freedom of worship but not propagation of religion allowed in country districts around Tsinan. Preaching allowed Tsinan probably view presence foreigners.

Americans Tsinan considerably annoyed by frequent visits Communist officials who converse at length always ending by asking whether they do not wish go Tsingtao.

Sent Nanking 385, repeated Department 224.

STRONG

893.00/12-2048 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, December 20, 1948—7 p. m.

[Received 9:56 p. m.]

471. Re Embtel 243, December 18, repeated Department 2568, Peiping 264, Shanghai 1289, Tsingtao. Mayor Tu called noon today. He said fighting occurred early this morning around Changkueichuang airfield, also at Peitsang 5 miles northwest Tientsin and Yangliuching 6 miles west of city (artillery audible 5 to 6 a. m.). He estimated present Communist strength Tientsin area at least 2 columns, 1 roughly north and east and 1 west. He expected in week to 10 days Communist strength would be increased enough to seriously attack city. Mayor then said he had just talked by voice radio with P. Chuan, who went Tsingtao to see Admiral Badger and now in Peiping.

Mayor said he could not hear Chuan clearly but gathered impression Admiral Badger told him Marines would be sent Tientsin. I said I had not heard Marines were coming.

Mayor intimated Tientsin would be defended to last ditch. He raised question protection foreigners event fighting or disturbances and said he was thinking over various ways to protect them such as possible concentration.

Opinion this office re dispatch Marines to Tientsin same as expressed Embtel 243, December 18,²⁵ we feel highly possible any Marines sent here would be involved civil strife. Government officials here would welcome such involvement. Our opinion not conveyed to mayor.

Sent Nanking 703, repeated Department 471, Peiping, Tsingtao, Shanghai 645.

SMYTH

²⁵ Sent to the Department as telegram No. 2568, p. 942.

119.2/12-2248

*The Consul General at Peiping (Clubb) to the Ambassador in China (Stuart)*²⁶

No. 106

PEIPING, December 22, 1948.

SIR: I have the honor to enclose for the information of the Embassy a copy of a communication (in English original only) dispatched jointly under date December 18, 1948 by the several consular representatives presently residing in Peiping to General Fu Tso-yi, in his capacity of Commander-in-Chief in North China, and of his reply (in English translation) of December 20, 1948.²⁷

The dispatch of this joint communication arose out of discussions of the concerned representatives on December 17 and 18 in respect to the situation existing in Peiping, where the presence of large numbers of Nationalist troops has already threatened increasing complications in respect to the present state of peace and order, and where it is likewise threatened that there will be a certain amount of possible looting and disorder in an interim period between the relaxation of Nationalist control and the application of Communist control in case of Communist occupation of this city. It will be observed that the communication takes note of the circumstance that foreign nationals residing in Peiping are entitled in their neutral character by international law and custom to the fullest measure of protection from the local authorities for their lives and property, and requests that General Fu's Headquarters do everything appropriate and possible to the end that explicit orders should be issued by the responsible military and civil authorities for the indicated purpose.

General Fu's reply states that his Headquarters has already ordered the Peiping Garrison Headquarters to extend special protection to foreign residents in Peiping, and states that a copy of his communication is being forwarded to that latter Headquarters for strict enforcement.

Respectfully yours,

O. EDMUND CLUBB

119.2/12-248: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 24, 1948—2 p. m.

1880. Dept anxious receive Emb views, plans and present status China communications (Deptel 1779²⁸). Believe following facilities

²⁶ Copy transmitted to the Department without covering despatch; received January 14, 1949.

²⁷ Neither printed.

²⁸ December 7, 6 p. m., not printed.

serving China desirable: (a) Continued Shanghai operations long as possible provisioned for Stateside outlet Pacific mil base event Navy withdrawal, (b) alternate base Canton provisioned for Stateside outlet via Pacific mil base Guam, Tokyo or Manila, (c) Pacific mil base supplied with signal plans (frequencies and calls) prepared to serve China posts broadcast and/or contact basis event Canton curtailed or closed. Can Emb make above arrangements locally? What arrangements between Dept and mil authorities Washington desirable? Advise.

LOVETT

124.936/12-3148: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1948—1 p. m.

[Received December 31—3:39 a. m.]

2673. [To Tsingtao:] Following gist of instructions sent Consulate General Shanghai recently by Department in reply request for Departmental guidance should political action by consular body during interregnum be considered (reurtel 420, December 29²⁹).

Participation by you in any action by consular body that would place US Government or its representatives in role of mediator or guarantor during turnover of city is inadvisable. Likewise you should refrain from participation in political action by consular body such as assumption responsibility. You may participate in action based humanitarian nonpolitical considerations with clear understanding such participation your part involves no political commitments or involvement US Government or you.

Military Attaché has no information now on National Army plans withdraw troops from Tsingtao.

Sent Tsingtao 253, repeated Department.

STUART

²⁹ Not found in Department files.

NEGOTIATIONS RESPECTING EVACUATION OF CERTAIN REFUGEE GROUPS FROM SHANGHAI THROUGH THE INTERNATIONAL REFUGEE ORGANIZATION

393.0015/11-848 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, November 8, 1948—4 p. m.

[Received November 8—5 : 10 a. m.]

2345. Mr. Glassgold, head of the American-Jewish Joint Distribution Committee, again has requested advice whether our Government in any emergency evacuation plan is giving consideration for about 350 displaced persons under his care. His refugees are mostly Germans, Polish, Austrians or stateless. Glassgold claims he could provide transportation for them for some nearby place like Guam or Okinawa. He also asks what haven they could go to if evacuated.

Mr. Gologoff, Chairman of the Russian Emigrants Association, Shanghai, states there are 8,000 political immigrants residing in China, the majority being White Russians who are afraid to remain in China if Communists are in power. He wants to know if our Government would aid them in case of an emergency evacuation.

Advice on these policy questions is requested.

Sent Nanking 1773; repeated Department 2345.

CABOT

393.0015/11-1148 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 11, 1948—5 p. m.

[Received November 12—3 : 18 a. m.]

2173. For purposes evacuation planning we would appreciate soonest possible Department's decision on questions raised Shanghai Contel 2345 to Department. We are planning evacuate non-Americans, who may desire, from interior points to Tsingtao and Shanghai on humanitarian and space available basis. ComNavWesPac¹ emergency plan includes provision movement all evacuees to concentration point in Japan. This provision has concurrence Japan occupation authorities. Ambassador or designated representative has responsibility decision which groups are to be so evacuated.

¹ Commander, U. S. Naval Forces, Western Pacific (Badger).

It is our belief that persons mentioned Shanghai Contel, particularly White Russians, would be discriminated against by Communist-dominated government and that some would be in very grave personal danger. Also, in event general breakdown law and order, which now seems likely, all might well be endangered by mob violence.

Sent Department, repeated Shanghai 1077.

STUART

393.0015/11-848 : Telegram

The Acting Secretary of State to the Consul at Geneva (Troutman)

WASHINGTON, November 17, 1948—6 p. m.

1511. For Tuck² from Saltzman.³ On basis current reports from US missions China, Dept seriously concerned re increasing threat 5000 Jewish, 8000 White Russian and 40 Polish refugees in Shanghai all considered eligible IRO protection and assistance. Strongly urge IRO take all possible emergency action evacuate all eligible IRO refugees soonest either to temporary or permanent places refuge.

Dept advised Israel has offered asylum 5000 IRO eligible Jewish refugees and is attempting arrange issuance visas this group at Shanghai. Can IRO provide shipping Israel visa holders and if so for what numbers and on what dates? In this connection Dept suggests possibility ships in Australian run may pick up Jewish refugees Shanghai on return voyage from Australia.

No permanent haven presently in sight for White Russian and Polish refugees Shanghai. Dept exploring all possibilities temporary haven these groups. Is IRO prepared provide interim assistance these groups at such places temporary refuge as may be found? Your comments and advice as to IRO plans urgently requested. [Saltzman.]

LOVETT

393.0015/11-848 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 17, 1948—6 p. m.

1644. Reurtels 2173 Nov. 11, rptd Shanghai 1077; Shanghai's 2345 Nov 8 sent Nanking 1773. Dept position that urgent efforts should be made evacuate those refugees whose lives in danger. It is hoped that as many as possible will be included in evacuation under ComNavWesPac plan. For your info, Gen MacArthur,⁴ on Nov 12

² William H. Tuck, Director General of the International Refugee Organization (IRO).

³ Charles E. Saltzman, Assistant Secretary of State for Occupied Areas.

⁴ General of the Army Douglas A. MacArthur, Supreme Commander for the Allied Powers, Japan, and Commander in Chief, Far East.

(before decision had been made to declare state of emergency) transmitted to Dept Army appeal received by him from Gologoff in behalf 8000 White Russians, and added "the use of Japan as refugee base is impracticable". Dept realizes it is probable that area other than Japan must be found as place temporary haven for considerable number Central European Jewish, White Russian and Polish refugees noted in reftels. We assume these are only groups for whom evacuation needed.

Dept requesting International Refugee Organization extend maximum assistance both financial and shipping in connection evacuation refugees to whatever area temporary haven, and their care and maintenance pending permanent resettlement. Jewish refugee group Shanghai (which Dept understands numbers 5000) already declared eligible IRO and many receiving IRO help Shanghai through AJDC.⁵ Latter has secured firm commitment from Israel for immigration entire group as soon as shipping can be provided. Immediate problem this group thus to evacuate them temporarily, since shipment entire group to Israel by IRO or other means will take considerable time. Re other refugee groups, Dept understands 8000 White Russian and 40 Poles (Fryling group) have not been declared IRO eligibles, but believes they are clearly eligible under IRO Constitution.

In connection foregoing, Dept wishes find areas willing grant temporary haven above refugees pending their final resettlement. Request Nanking and Taipei discuss simultaneously with Chinese Govt and Wei Tao-ming⁶ possibility and number such refugees who having end visas other countries might be accommodated Formosa temporarily and advise Dept urgently. Dept continuing investigation other possibilities. Will advise IRO reaction Dept's approach.

DP's from Far East are not eligible enter U. S. under DP legislation 1948.⁷

LOVETT

393.0015/11-1848: Telegram

The Consul at Geneva (Troutman) to the Secretary of State

GENEVA, November 18, 1948—4 p. m.

[Received November 19—2:30 p. m.]

1464. From Tuck for Saltzman, Shanghai for Wang and Canberra for Lloyd.⁸

1. We have two ships, *Wooster Victory* and *Castelbianca*, now in Australia, total capacity 1772, which we prepared send Shanghai arriv-

⁵ American-Jewish Joint Distribution Committee.

⁶ Chinese Governor of Taiwan.

⁷ Displaced Persons Act approved June 25, 1948; 62 Stat. 1009.

⁸ Maj. Gen. C. E. M. Lloyd, Chief of the International Refugee Organization Mission in Australia.

ing about 14 days from now. These can shuttle Jews from China or Japan to Australia from where they will be sent to Palestine. We are cabling Australian Govt requesting transit facilities.

2. This plan only possible if we can have immediate authority use three of our USATS⁹ on Australian run to avoid disruption of all important Australian programme. Authority to put USATS into Palestine ports also essential in order to bring back Australia ex-China Jews as it is impracticable make arrangements any other Mediterranean port. Moreover, only USATS can be assured of passage through Suez Canal.

3. *Wooster Victory* and *Castelbianca* being ordered revictual for Shanghai voyage pending your reply.

4. In addition above, *Marella* arrives Shanghai about December 9 and will evacuate 400 White Russians to Italy en route Argentine.

5. No other immediate shipping moves possible.

6. We prepared provide interim assistance in any temporary refuge for remaining groups in danger. Strongly urge refuge be granted Japan. Australian Govt has asked MacArthur transport and accept in Japan temporarily 5000. Total requiring refuge would, however, be larger. Maximum, as indicated urtel¹⁰ 13,000.

7. Japanese or locally chartered ships required for ferry to Japan. Urge you approach MacArthur.

8. White Russians would need remain Japan until resettlement opportunities arranged.

Dept pass Canberra urtel 1511, November 17.

Sent Department 1464, Department pass Shanghai, Canberra. [Tuck.]

TROUTMAN

893.00/11-2048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 20, 1948—noon.

[Received November 20—3:28 a. m.]

2270. We left note with Foreign Office this morning suggesting Taiwan as temporary haven for foreign refugees whose lives may be endangered by spread of hostilities and Communist domination (Deptel 1644, November 17, repeated Shanghai 1954, Taipei 60). Foreign Office official said he would refer suggestion to Provincial Government [of] Taiwan.

He was not encouraging. He said Chinese Foreign Office had already made survey of housing conditions Taiwan as possible refuge for

⁹ United States Army Transport Service.

¹⁰ Telegram No. 1511, November 17, p. 948.

families of Chinese officials and Diplomatic Corps; that results of survey were negative and that he doubted Taiwan provincial government would be able to accommodate refugees.

In response to his query we expressed hope that IRO would finance evacuation to Taiwan and maintenance and care of refugees there until they could be moved on to permanent settlement. Foreign Office official said he would inform us promptly of Taiwan Provincial Government decision.

Sent Department, repeated Shanghai 1639, pouched Taipei.

STUART

840.48 Refugees/11-3048

The Assistant Secretary of State for Occupied Areas (Saltzman) to the Under Secretary of the Army (Draper)

WASHINGTON, November 20, 1948.

DEAR MR. DRAPER: Acting on current reports from the United States missions at Nanking and Shanghai, the Department of State on November 17, 1948 requested the assistance of the International Refugee Organization (IRO), Geneva, (Department's telegram 1511 to Geneva, November 17, 1948, copy enclosed ¹¹) on behalf of 5,000 Jewish, 8,000 White Russian and 40 Polish refugees whose lives are endangered in Shanghai. With respect to the 5,000 Jewish refugees for whom the Israeli Government has offered entrance visas the IRO was requested to provide transportation to Palestine utilizing ships in its Australian run on the return voyage. In view of the fact that no permanent places of refuge are yet available for the White Russian and Polish refugees, the IRO was requested to provide care and maintenance in such temporary havens as may later be found for them.

In response the IRO (Geneva's telegram 1464, November 18, 1948, copy enclosed ¹²) offered two ships, the *Wooster Victory* and *Castelbianca*, now in Australia, to shuttle Jewish refugees from Shanghai to Australia where they might embark for Palestine on IRO ships returning from Australia. You will note from the IRO telegram that this tentative plan of movement is considered possible only if authority is given to IRO to use three of the USAT's currently in IRO service on the Australian run and provided these ships may enter Palestine ports. Further, IRO assumes that only USAT's with passengers for Israel can be assured of passage through the Suez Canal.

As you know, the Department of the Army has not heretofore permitted the use of USAT's outside Atlantic waters. In view of the emergency which has arisen in Shanghai and the need for saving the

¹¹ *Ante*, p. 948.

¹² *Ante*, p. 949.

lives of the persons endangered, your urgent reconsideration of this decision to permit the use for a limited period of three USAT's in the Australian run is requested. Subject to your concurrence, the Department of State is prepared to advise the IRO that it is not feasible for the USAT's to enter Palestine ports and that routing via the Panama Canal would be preferable because of the saving of toll charges involved in transit through the Suez Canal. In this event, debarkation might take place in Italy from which onward movement to Palestine might be arranged by interested Jewish agencies. The Department of State has no information at this time that the Australian Government will grant the request made by IRO for transit facilities in Australia for the persons concerned, or that the Italian Government has been formally requested to grant transit facilities. It is believed, however, that the Italian Government would make such facilities available on assurance of onward movement. On the assumption that transit facilities will be granted by the Australian and Italian Governments, the Department of State will welcome your decision in principle as soon as possible as to the use of the USAT's for a limited period to accomplish the proposed movement from Australia to Italy. If your answer to the foregoing question is favorable, I shall appreciate designation by you of a deputy to work out the details of the movement with one of my assistants and General Wood, Washington representative of the IRO. Arrangements for the evacuation will need to be made quickly under rapidly changing conditions.

Sincerely yours,

CHARLES E. SALTZMAN

393.0015/11-1848 : Telegram

The Acting Secretary of State to the Consul at Geneva (Troutman)

WASHINGTON, November 23, 1948—7 p. m.

1524. Tuck from Saltzman. Pursuant urtel Nov 18 (Geneva's 1464 to Dept relayed Shanghai Canberra Nov 18) Dept made urgent request Army for IRO use 3 USATs on Australian run for limited period. Entry USATs into Palestine ports and transit Suez Canal not considered feasible. Will advise further soon as Army reply recd.

Under circumstances suggest further exploration availability Mediterranean ports such as Genoa for onward movement refugees to Palestine. Pending completion other arrangements also suggest *Wooster Victory* and *Castelbianca* might proceed Shanghai immediately to embark refugees. Dept advised that Israeli Consul proceeding Shanghai and over 1700 refugees will be processed by time *Wooster Victory* and *Castelbianca* arrive Shanghai. Ships might be

routed thereafter to Sidney or Mediterranean port accordance with arrangements completed at time departure from Shanghai.

Kindly advise whether Australia has granted transit facilities and if not whether IRO ships on Australian run could pick up refugees Shanghai on return voyage for delivery Mediterranean port.

Will keep you advised. [Saltzman.]

LOVETT

393.0015/11-3048 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 30, 1948—11 p. m.

[Received November 30—3:04 a. m.]

2365. ReEmbtel 2270, November 20, repeated Shanghai 1639, regarding evacuation to Taiwan of Jewish and other refugees. Foreign Office replied in note dated November 29 that "because of large number refugees involved and shortage of housing and other facilities in Taiwan, it is regretted they cannot be accommodated there". Note adds "as situation in China still may be regarded as stable, it would appear that refugees may be gradually evacuated to Shanghai to await ships for conveyance to other countries".

Sent Department 2365; repeated Shanghai 1177, pouched Taipei.

STUART

840.48 Refugees/11-3048

The Under Secretary of the Army (Draper) to the Assistant Secretary of State for Occupied Areas (Saltzman)

WASHINGTON, 30 November 1948.

DEAR MR. SALTZMAN: The Department of the Army has considered the request of your letter, dated 20 November, concerning emergency use in the Pacific of certain ships to transport Displaced Persons from China. This letter confirms the decision with respect thereto communicated to your office informally on Saturday, 27 November 1948.

The Department of the Army agrees that three ships of the U. S. Army Transport Service now on loan to the IRO may, as an emergency measure, be used on the Australian run to facilitate evacuation of Displaced Persons from China with the understanding that two of the three ships will be so scheduled and phased as to be available in the Atlantic at all times, and that the ships will be used for one round trip only from Europe to Australia. The Department of the Army concurs that it is not feasible for the ships to enter Palestine ports and that routing via the Panama Canal would be preferable.

It is recommended that the International Refugee Organization pursue every possible means to supplement this service with ships of the Maritime Commission.

In accordance with your request that a member of the Army Staff be appointed with whom your office might work directly, the name of the following officer is furnished: Lt. Colonel R. D. Hoisington, Logistics Division.

It is realized that the above is only a partial solution to the problem you presented, and the Department of the Army recognizes that there remains the safety and welfare of the 8,000 White Russian refugees whose lives, as you point out, are endangered in Shanghai. Presuming that provisions for security of this group in the form of a temporary or permanent haven will receive the continuing urgent consideration of the Department of State and the International Refugee Organization, the Department of the Army has explored the possible utilization of Japan and certain strategic trusteeship areas in the Pacific without successful results to date. General MacArthur has suggested that the Philippine Islands or the southern complex of China offer the best prospects for a temporary haven from an operational standpoint.

For the Under Secretary of the Army:

G. A. LINCOLN

Colonel, USA

Assistant to the

Under Secretary of the Army

840.48 Refugees/12-2048

The Consul General at Shanghai (Cabot) to the Secretary of State

No. 1042

SHANGHAI, December 20, 1948.

[Received January 13, 1949.]

SIR: I have the honor to enclose two recently prepared memoranda¹³ centering on the increasing panic of local White Russians; the ironical apparently preferred position of questionable "White" Russians over more bona fide ones with respect to opportunities for escape by evacuation as DP's; and Soviet actions suggestive of a newly launched drive to strengthen the Soviet position in local Russian, foreign (especially American and British) and Chinese circles. These memoranda were prepared by a member of the American staff of the Consulate General who has exceptional opportunities for acquiring first-hand information concerning local Russian affairs and who desires not to be here

¹³ Neither printed.

identified. They are largely in accord with material from other sources in so far as such material is available here.

Summary About 2000 Russians in Shanghai who had taken out Soviet passports have relinquished them in recent months and applied for stateless passports. Most of those receiving stateless passports from the Chinese Government have been applying for membership in the White Russian Emigrants Association, which has been screening the applicants before admitting them and has been rejecting a good many. Those who have been rejected (and whose anti-Soviet leaning is presumably open to serious question) are—somewhat ironically—apparently finding it easier to escape from Shanghai as DP evacuees under the IRO program than are persons in good standing in the White Russians Emigrants Association. The Soviet Consulate General, in place of its former vengeful policy toward Russians wishing to return their Soviet passports, has very recently adopted a practice of encouraging many such persons to apply for stateless passports, but at the same time advising them to refrain from public repudiation of their Soviet citizenship and to have the Consulate General keep their passports on deposit for possible future use. Many Russians are availing themselves of this new procedure as it enables them “to keep a leg on each side of the fence.” The system benefits the Soviet authorities by providing them with increased numbers of potential undercover agents in the guise of stateless persons; and a primary Soviet motive appears to have been that of facilitating the obtainment by such persons of employment in American, British, and other firms. That the Soviet Union is in fact engaged in a newly initiated drive to strengthen the Soviet hand in Russian and foreign (especially American and British) as well as Chinese circles here would also seem indicated by the apparently well founded report of the recent arrival at Shanghai of fifty-five young Soviet men, proficient in English and Chinese, and evidently trained for specific tasks here and elsewhere in China. (Ten of them are reported to have proceeded on to Tientsin*). Local White Russians are becoming panic-stricken in the face of a possibly imminent Communist regime which they fear will be preceded by an interim period of terrorism by Soviet agents. (The existence of increasing fright among the White Russians is confirmed by other indications; and, among other factors, reports of a plan of evacuating a group of Russian minor technicians to the Marianas are contributing to the alarm of those to be left behind.)

Respectfully yours,

JOHN M. CABOT

*The Consulate General is endeavoring to obtain more information concerning these agents, including their names. [Footnote in the original.]

840.48 Refugees/12-2148 : Telegram

The Consul General at Shanghai (Cabot) to the Secretary of State

SHANGHAI, December 21, 1948—6 p. m.

[Received 10 : 38 p. m.]

2851. I am increasingly disturbed at difficulties IRO is meeting in trying to remove White Russians, Jewish refugees and other similar persons from Shanghai area. It now appears probable that 1772 Jewish refugees will be taken out on ships to Palestine, thereby somewhat relieving pressure in that sector (total number of Jewish refugees estimated to be 6,000). So far as I am aware nothing has as yet actually been accomplished despite all efforts to remove White Russians from this area, even though they are obviously in greater personal danger than Jewish refugees. Principal stumbling block appears to find an intermediate haven until permanent new homes can be found for these people. Best specific prospects such as Saipan and Argentina now appear definitely blocked.

On other hand, we in Consulate General have been disturbed at prospect of removing to an area under our control or of recommending to other nations reception of thousands of refugees among whom many would doubtless be Communist agents or otherwise undesirable.

We believe that we can largely avoid this difficulty and do at least something to ease this problem by agreeing to take a limited number, say 2500 refugees (Russian, Jewish, Polish, Austrian, Ukranian, Baltic, et cetera), to some nearby area under our control, for example Okinawa or Saipan. We would include among these many persons already processed and approved by the Consulate General and merely waiting quota numbers, White Russian police employed by army which is now unable to do anything for them and such other people as we know to be generally eligible under our immigration laws or are so determined as result of a preliminary screening. We feel that such an offer would place us in a far stronger moral position than we are today vis-à-vis other nations we are asking to help and people in these groups who have some claim on us without on our part running any particular risks whatever might develop.

Should Department view this suggestion favorably, I recommend that it urgently make arrangements for such intermediate refuge with other departments concerned. Would appreciate instructions at earliest practicable moment.

Sent Department, repeated Nanking 2139.

CABOT

840.48 Refugees/12-2148 : Telegram

*The Acting United States Political Adviser in Japan (Sebald) to
the Secretary of State*

No. 797

Tokyo, December 21, 1948.

[Received January 5, 1949.]

SIR: I have the honor to report that Mr. George Hoague, Jr., Shipping Adviser of the International Refugee Organization in Shanghai, called upon me during the morning of December 18, 1948, prior to calling upon General of the Army Douglas MacArthur at the latter's office.

Mr. Hoague called at the suggestion of Consul General John M. Cabot with a view to obtaining such advice and suggestions as might be appropriate before taking up with the Supreme Commander the purpose of his visit to Japan. Mr. Hoague stated that he is most anxious to obtain immediately a temporary safe haven for some 800 persons presently in Shanghai who, in his opinion, would quickly be liquidated by the Communists in the event that Shanghai should fall under the control of Chinese Communist forces. He said that these persons are those who had at one time taken out Soviet papers but had subsequently renounced their Soviet citizenship. In requesting a safe haven for these people, Mr. Hoague repeatedly stressed the urgency of the situation and said that the International Refugee Organization would comply with any conditions that might be imposed, including all logistic support from the IRO stocks, guards, medical treatment, inoculations, and length of stay.

Mr. Hoague hoped that it would be possible to obtain the Supreme Commander's approval to a plan whereby some 13,000 refugees, displaced persons, and stateless individuals might be brought to Japan in relays for temporary accommodations until plans for their onward transportation either to the Philippines, Australia, or as a last resort to Naples, might be crystalized. From previous conversations which I have had with General MacArthur, it was possible for me to explain to Mr. Hoague some of the legal and practical difficulties which would necessarily have to be overcome before the Supreme Commander could concur in these proposals.

Consequent upon Mr. Hoague's interview with General MacArthur, it was agreed that 150 displaced persons, to be selected by IRO, would be flown to Japan for temporary accommodations and to be removed as soon as practicable but not later than 60 days. A copy of Mr. Hoague's agreed-upon request dated December 18, 1948, together with the Supreme Commander's Chief of Staff's affirmative endorsement, is enclosed.¹⁴ It will be noted that rations and medical supplies are to be

¹⁴ Enclosures not printed.

furnished from United States Army sources in Japan on a reimbursable basis and that other than the temporary accommodations, IRO has agreed to handle this operation on a self-contained basis. For the Department's information there is also enclosed a copy of General Headquarters, CinCFE radio to the Commanding General, United States Eighth Army, in implementation of the agreed-upon accommodations.

Mr. Hoague also took advantage of his presence in Tokyo to approach Dr. Bernabe Africa, Chief of the Philippine Mission in Japan, with a request addressed to the Republic of the Philippines for temporary accommodations for displaced persons not to exceed 8,000 at any one time. A copy of this request, which also contains General MacArthur's recommendation for favorable consideration, is enclosed. It will be noted that this request suggests the former United States Navy Installation in Guiuan as the locale for a temporary safe haven and that these persons will be entirely administered and supported from resources of the IRO. As a matter of assistance to Mr. Hoague in this worthy and humanitarian project, I forwarded the request to Dr. Africa under cover of a formal note dated December 19, 1948, recommending favorable consideration. A copy of this note is enclosed.

In response to Mr. Hoague's request, Dr. Africa, on December 20, 1948, despatched a telegram to his Foreign Office also recommending favorable consideration. A copy of this telegram is enclosed.

Respectfully yours,

W. J. SEBALD

840.48 Refugees/12-2048

The Acting Secretary of State to the Secretary of Defense (Forrestal)

WASHINGTON, December 22, 1948.

MY DEAR MR. FORRESTAL: For some weeks the Department of State has been endeavoring to find havens of refuge for approximately 13,000 refugees in Shanghai whose lives may be endangered by the occupation of the city by Communist forces. The refugees in Shanghai include 5,000 Jewish refugees who have been promised permanent asylum in Israel and approximately 8,000 White Russian refugees, some of whom are Jewish, for whom no permanent asylum has yet been found.

The search for permanent asylum for all of the refugees persists. However, with the deterioration of the situation in Shanghai the immediate problem is to secure places of temporary asylum near by in the Pacific for those for whom permanent asylum elsewhere is assured. The International Refugee Organization (IRO) is prepared to provide transportation and maintenance for such refugees, including medical care, in any areas where housing, water and utilities are or

could be made available. The refugees would be moved by the IRO from places of temporary haven to their end destinations upon the first shipping available to IRO.

Every area heretofore considered has been found to be unavailable for the purpose of temporary haven. The result is that we face the necessity of dealing with the emergency in Shanghai with no plan in sight. It will be contrary to the interest of the United States to permit the refugees in question to suffer permanently under Communist domination through any failure to explore every possible resource. Under these circumstances I shall appreciate your assistance in reviewing the possibilities of providing one or more temporary havens in areas in the Pacific administered by the National Military Establishment for those refugees in Shanghai for whom an end destination is assured.

In view of the urgency of the problem, your early reply will be most welcome.

Sincerely yours,

ROBERT A. LOVETT

840.48 Refugees/12-2448

Memorandum of Conversation, by Mr. Herbert A. Fierst, Assistant to the Assistant Secretary of State for Occupied Areas (Saltzman)

[WASHINGTON,] December 24, 1948.

At the request of Mr. Wailes (BC),¹⁵ relayed through Mr. Dawson,¹⁶ I received Mr. Davis¹⁷ of the Australian Embassy shortly before noon. Mr. Davis stated that the Embassy had received a cable from Canberra explaining Australia's refusal to grant transit facilities to the IRO for the benefit of the Shanghai refugees. The reasons may be summarized as follows:

(1) Australia has agreed to take 100,000 DP emigrants within the next 18 months, and must therefore devote all of its efforts to providing accommodations and other facilities for them.

(2) Australia has already admitted, since the close of hostilities, about 15,000 Jewish displaced persons and feels therefore that it has more than done its part in the solution of this problem.

(3) Since the White Russian DP's would not be involved in this project, Australia would be embarrassed by singling out one group—the Jewish DP's—for favorable treatment.

(4) Australia is afraid that its own well-organized Jewish community would exert considerable pressure to have some of the Jewish DP's who had been admitted on a transit basis remain permanently.

I replied that the reasons outlined by Mr. Davis indicated to me that there was a good chance that the Australian Government had not fully understood the IRO project. There was no intention of bringing

¹⁵ Edward T. Wailes, Chief of the Division of British Commonwealth Affairs.

¹⁶ Laurence A. Dawson, Adviser to the Assistant for Refugees and Displaced Persons (Warren).

¹⁷ Owen Davis, First Secretary of the Australian Embassy.

DP's to Australia from Shanghai in such large numbers and for such a long period of time as to affect the accommodation situation in Australia. I explained that the reason Australia had been selected as the ideal transit point was because so many ships would be arriving in Australia within the next few months from the European DP camps. These would, unless other arrangements were made, return completely empty over the long distance of the Pacific. All that IRO was asking was a small area in a port which could be used temporarily to accommodate a few boatloads of Shanghai refugees until such time as the IRO ships arrived. I suggested to Mr. Davis that, in order to make absolutely certain that his Government fully understood the nature of the IRO project, he might wish to cable the outlines of an appropriate specific counter offer by the Australia Government as follows: No more than 1,000 Shanghai refugees would be accepted at any given time, and with a maximum duration of two weeks, all of these to be persons with assured further destinations. In Mr. Davis' presence, and with his prior consent, I phoned General Wood of IRO to get his comments on the feasibility of such a proposal. General Wood said that at least four IRO ships would be arriving in Australia during the first two months of 1949, which would mean that the Shanghai refugees could be promptly evacuated from Australia. However, in view of the fact that one of these ships had a capacity of 1350, he urged that the suggested ceiling be raised from 1,000 to 2,000 or preferably 2,500. I relayed this suggestion to Mr. Davis. Mr. Davis did not commit himself to cabling this suggestion to his Government, but he did say that he would consider it very carefully upon his return to the Embassy.

840.48 Refugees/12-2148 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Cabot)*

WASHINGTON, December 24, 1948—2 p. m.

2259. Appreciate urtel 2851 Dec. 21. Dept anxiously awaiting replies from other concerned departments to Dept's previous requests that temporary haven in areas under US control be granted refugees having end destination elsewhere.

Will advise further when such replies received.

LOVETT

Editorial Note

Arrangements were made in the first quarter of 1949 for evacuation of several thousand refugees from Shanghai. These included about 5,000 given temporary haven in the Philippines and others sent via the United States to other destinations. Some 1300 Russian emigrants remained as of April 1949 in Shanghai.

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